GN Store Nord A/S

# Hear More, Do More, Be More

## Annual Report 2016

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## Management's report



## Financial statements



# Our investment case

Through relentless execution of our strategy 2017 - 2019: Hear More, Do More, Be More, we create shareholder value through commercialization of our core competency within sound processing in attractive markets

## GN Hearing

Leader in customer-driven innovations in hearing aids based on differentiated wireless 2.4 GHz technology

- Focused business model – dedicated wholesale manufacturer refraining from vertical integration
- Attractive market growth driven by sustainable megatrends in a consolidated industry with attractive profit margins
- Profitability in line with the best manufacturers in the industry

## GN Audio

The world's leading supplier of Unified Communications headsets driven by customer-focused commercialization of a state-of-the-art product portfolio

- Double digit mid- to long-term CC&O market growth driven by sustainable market trends
- The core business operates in a consolidated industry with high barriers to entry
- Attractive operating margin and return on invested capital

# 2016 in figures

## Revenue of DKK

8.7bn

+12% vs 2015

## EBITA of DKK

1.6bn

+14% vs 2015

## Cash conversion

74%

+30% pts vs 2015

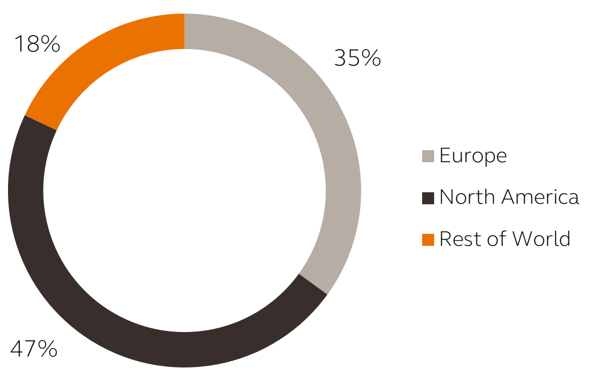
## Share buybacks and dividends

DKK

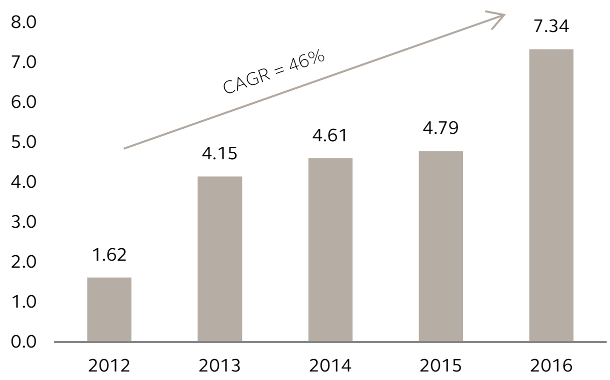
1.4bn

+14% vs 2015

## Revenue split by region




## EPS development
(DKK)




Note: Excluding Otometrics

# World-leading audio solutions expertise

Market share gains

6 years

in a row in GN Hearing

Continued market-leading

growth

by GN Audio's CC&O business

Acquisitions completed of

Audigy & VXi

in North America

Employees worldwide

5,400

# Making life sound better for even more people

2016 was another year of strong performance in our hearing aid and headset businesses. In September, we announced our new three-year strategy, and – as a company – feel stronger than ever as we enter the next strategy period

During 2016, the GN Group delivered strong profitable growth with 12% revenue growth and an EBITA margin at 18.3%. The group's strong and consistently high performance is attributable to our continued technology leadership and excellent commercial execution across our hearing aid and headset businesses.

GN Hearing maintained its strong momentum. Growth continues to be spurred by the remarkable success of ReSound LiNX² – our fastest selling product ever – which helps us win new customers through strong audiological and connectivity benefits. Growth was further supported by successful product introductions in the super power and essential segments.

To further strengthen GN Hearing's focus as a dedicated hearing aid manufacturer, we divested Otometrics – the diagnostics equipment manufacturer – to Natus Medical. The agreement included a strategic partnership with Natus Medical in the hearing aid diagnostics space, as well as collaboration on the development and commercialization of the world's first complete digital 3D ear scanning solution, OTOSCAN.

In July 2016, we acquired Audigy Group, a specialist in performance management solutions for hearing dispensers. This reflects our ambition to continuously offer leading products and services to our customers while maintaining strict focus on our hearing aid business. With Audigy Group's unique performance management solutions, GN Hearing will further strengthen its services and partnership with its customers.

In our headset business – GN Audio – we further expanded our lead in the global market for professional solutions for contact centers and offices (CC&O). Unified Communications (UC) continues to be a high-growth segment, where we have seized the opportunity, done exceptionally well and grown the company to a position as world leader.

In October 2016, we acquired VXi Corporation. The addition of the US based manufacturer of professional headset solutions will further strengthen GN Audio's presence and market share in the important North American market as well as enable access to new segments.

The smaller part of our headset business that targets consumers suffered from the rapid decline in the market for Bluetooth mono headsets. We are continuing to take action to change our product portfolio and our go-to-market approach in this add on business to our professional headset business.

**A "new company" and brand platform**

In 2016, we repositioned our company and brand platform to more effectively leverage the combined power of GN's hearing aid and headset businesses. Our common company purpose is Making Life Sound Better with a vision for GN to be the leader in intelligent audio solutions, transforming lives through the power of sound.

Based on the group's broad user insights from the headset and hearing aid industries, and our extensive sound processing know-how in the medical, professional and consumer space, GN is uniquely positioned to participate in the future of intelligent audio solutions and develop a variety of sound solutions that will address current and future user needs. Our "new company" and brand platform will better enable us to utilize the full strength of the GN Group to the benefit of our customers, employees and shareholders.

**Hear More, Do More, Be More**

Thus, we exit the strategy 2014 - 2016: Innovation & Growth, stronger than ever. GN has emerged as a renewed company and has transformed into a leader in innovation and growth, particularly within the 2.4 GHz enhanced hearing aid platform and within the UC space.

The company's financial and organizational platform is in top shape as we embark on our strategy for 2017 - 2019: Hear More, Do More, Be more. This strategy will reinforce Innovation, Commercial and People Excellence to further expand our share of the hearing aid and headset markets.

With our exceptional sound processing platform, consistent financial performance and a talented and experienced organization, we are very well positioned to continue our high performance throughout the next three years.

**A relentless technology pioneer**
In 2008, GN decided to leverage GN Audio's many years of wireless expertise within Bluetooth headsets to investigate the potential use of 2.4 GHz technology in hearing aids – something never done before and widely considered impossible.

Two years later, GN Hearing successfully introduced the world's first 2.4 GHz hearing aids. This allowed us to be the first to offer accessories requiring no uncomfortable, stigmatizing neck-worn devices, and be first to market with direct Made for iPhone (MFi) connectivity.

Since then, GN Hearing has continuously perfected the remarkable 2.4 GHz platform and has in the process set a new standard in the hearing aid industry. ReSound LiNX², launched in 2015, was our 4th generation of 2.4 GHz hearing aids, available in a full product family serving people with all kinds of hearing losses and all kinds of needs.

Our 5th generation will be launched in 2017. This will offer new advantages and address real-life challenges that no one else has solved. The supreme sound quality and connectivity will help people Hear More, Do More and Be More than they ever thought possible.

We are very excited by this next breakthrough that will again set a new industry standard. And we are confident that we will continue our leadership in product features and user benefits making this a prime growth driver for this three-year strategy plan.

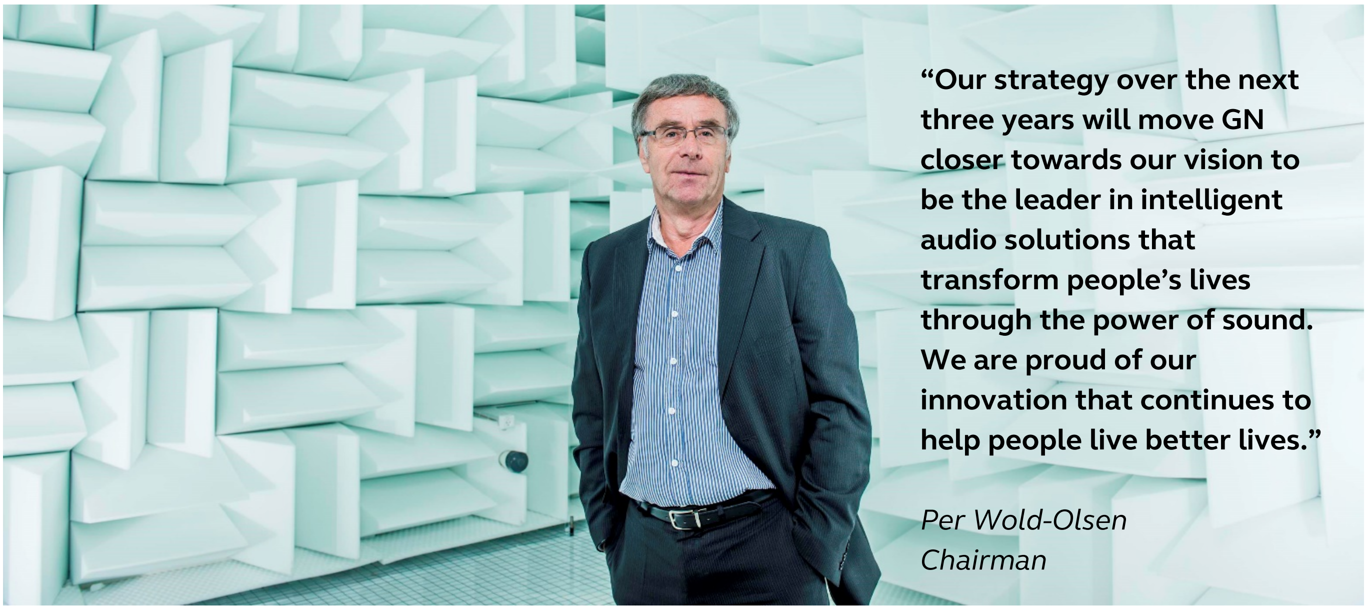
**Focus on continued organic growth**
Today, GN is in its DNA a technology innovator with a strong commitment to growth. In 2017 and beyond, we will continue to focus on delivering organic growth faster than the markets in which we compete. Additionally, GN has gained sufficient strength in financial and people resources to add to our growth with targeted acquisitions.

Our dedicated focus on profitable organic growth is unaltered. Our foundation continues to be technology leadership in hearing aids – exemplified by the industry now following in our footsteps on 2.4 GHz connectivity – and market leadership in business headset solutions – documented by our exceptional growth rates in CC&O.

During our 2017 - 2019 strategy period, we will continue to focus on what we do well – and continue to do more of this, and better. And we will further leverage GN's combined strength within intelligent audio solutions.

What has brought GN to this stage – and fundamentally renewed the company – is not least the hard and dedicated efforts of our more than 5,000 employees around the world working to provide intelligent audio solutions to people in 100 countries. On behalf of the GN Board of Directors, I want to thank all employees for their contributions and congratulate them on our success.

*Per Wold-Olsen*
*Chairman*



# Helping people Hear More, Do More and Be More

GN Store Nord's new 2017 - 2019 strategy is organized around three fundamental building blocks in which the company will excel to move performance to the next level: Innovation, Commercial and People Excellence. This strategy - combined with a renewed and unified company platform - will support GN's continued ambitious growth targets

GN is in the business of helping people Hear More, Do More and Be More. The group's declared purpose is Making Life Sound Better with a vision to become the leader in intelligent audio solutions that transform people's lives through the power of sound.

Building on the group's highly specialized sound processing know-how, GN offers an exceptional portfolio of medical, professional and consumer audio solutions. This combination of expertise – all under the same roof and taking advantage of hearing aid and headset technologies – is unique. It enables GN to develop a range of intelligent audio solutions that benefit users in unique ways – and will continue to do so in the future within hearing aids, headsets and multipurpose hearables.

**A stronger and shared company platform**

In a rapidly changing, increasingly urbanized, and ever more digital world, the need for intelligent audio solutions and sound management becomes increasingly sophisticated. With its combined competencies and know-how, GN is well equipped to develop such next-generation solutions.

To fully utilize the group's combined strength, GN clarified and strengthened its company platform and positioning towards customers and users in 2016. This has been encapsulated in the brand proposition – Intelligent audio solutions that let you hear more, do more, and be more than you ever thought possible. The deep insight into users' true needs that resides within the group's hearing aid and headset organizations allows GN to develop a variety of sound solutions that will address current and future user needs.

The renewed company and brand platform combines the strength of the whole group. One expression of this is that the family relationship between GN's flagship brands – ReSound and Jabra – has become more distinct depicting the combined expertise and strength of the group. Another expression will be increasingly tight collaboration across teams and competencies to utilize established market presences, user insights and R&D capabilities to offer new attractive solutions.

**Reinforcing GN's winning formula**

During the next three years, GN will base its continued growth on the strategy 2017 - 2019: Hear More, Do More, Be More, announced in September 2016. The strategy is organized around three fundamental building blocks: Innovation Excellence, Commercial Excellence and People Excellence.

The financial targets in the strategy period is for GN Hearing to drive annual organic revenue growth of 6 - 8% with an EBITA margin of 20 - 22%. In GN Audio, the target is annual organic revenue growth of 6 - 9% with an EBITA margin of 17 - 19%. At group level, GN Store Nord targets an effective tax rate around 22%.

## GN Hearing's strategic focus

**Breaking industry barriers**

GN Hearing has been an industry pioneer in connectivity and sound quality since the 2010 launch of the 1st generation of hearing aids based on 2.4 GHz wireless technology. Innovation has constantly improved user benefits over the years, and today our hearing aids offer a hearing impaired person – almost – more opportunities than a person with fully intact hearing. GN Hearing's focus for 2017 - 2019 will be to reinforce the strategic fundamentals Innovation, Commercial, and People Excellence.

**Leadership in innovation**

The Innovation Excellence approach will focus on three areas:

1. Bringing the user even more in focus in product innovation
2. Focusing even more on the core hearing aid technologies and the actual sound experience for the user – getting closer to natural hearing
3. Consistently delivering new and improved products to the market with true user benefits and features

In spite of major innovation breakthroughs in recent years, there are still multiple obstacles to solve to meet true user needs and improve the lives of people with hearing loss. One

## GN Hearing's journey towards more natural hearing

Mastering the game changing 2.4 GHz technology and connectivity through five generations of hearing aid families has given GN Hearing the innovative lead in the hearing aid industry

**2017**

5th generation

The 5th generation 2.4 GHz wireless technology from GN Hearing will deliver users – and hearing care professionals – unprecedented control and benefits. It will provide innovative improvements to increase user satisfaction through a more active user involvement in the fine-tuning of hearing aids, thus leading to better restoration of natural hearing.

**2015**

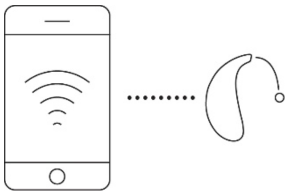
4th generation
ReSound LiNX²

Surround Sound by ReSound is upgraded with Spatial Sense, which helps the user hear what and where sounds are coming from. It allows users to focus on the sounds they are most interested in – even when noise levels are high.

Offering four times faster connection with Apple devices and now also connects with Apple Watch.

**2014**

3rd generation
ReSound LiNX



The world's first Made for iPhone hearing aid (Bluetooth Smart device) makes hearing aids work like wireless stereo headphones with iPhone, iPad or iPod touch.

The ReSound Smart app enables people to control and personalize their hearing aids where ever they are.

**2012**

2nd generation
ReSound Verso

The first 2.4 GHz based ear-to-ear data exchange, Binaural Directionality, enables users to decide which sound to focus on in any environment.

**2010**

1st generation
ReSound Alera

The world's first 2.4 GHz wireless system for high quality sound streaming does away with the stigmatizing necklace. New feedback reduction system removes feedback without reducing amplification.

important milestone will be to get hearing aids even closer to natural hearing. The highly recognized Spatial Sense feature in our 4th generation – ReSound LiNX² – was an important step, but further improvements will come.

Another important milestone will be to significantly improve the crucial fitting experience for the benefit of both hearing care professionals and users. An important step will be taken with our next and 5th generation of 2.4 GHz hearing aids.

**Lead in Commercial Excellence**
It is a core strategic objective to further improve commercial execution, partner with – and not acquire – retail, and share best practices, not least via the recent acquisition of Audigy Group. Expanding GN Hearing's footprint in the open market is key to capture further market share. We see a large opportunity in focusing strongly on the open market.

Another prerequisite for growth will be the continuation of GN Hearing's successful and strong partnership with leading channels across the globe. Among the most important partnerships are Amplifon, Cochlear, Costco and the US Veterans Affairs. The objective is to further strengthen these alliances and to integrate products and service in their patient journey.

According to EuroTrak 60% of hearing aid users research and buy products and services online, and first time hearing aid users are getting younger. Also, smartphone adoption among 65+ year-olds is increasing. GN Hearing has seen a significant increase in app downloads.

## GN Audio's strategic focus

**Growth driven by innovative products**
During a period of almost 10 years, GN Audio has been significantly transformed into being a market leader in different headset segments, with increasing revenue and continued attractive profit margins. An important driver has been a strong ability to deliver innovative products to the market segments with a particular focus on the importance of high-quality conversations. GN Audio's total addressable market is estimated to have a size of around DKK 20 billion.

**Task-based professional users**
Task-based Unified Communications (UC) solutions target office workers with a need during the work day to switch between concentration and collaboration mode. The increased use in business communication of softphones, smartphones and tablets, open and noisy office spaces and multiple distractions often lead to productivity challenges which concentration-enabling headset solutions alleviate. At the same time, we see that the increase in online meetings, the need for mobility and new ways of working are all developments that call for strong collaboration solutions. These needs are successfully addressed by GN Audio's Jabra Evolve and Jabra Speak portfolio.

During 2017 - 2019, GN Audio will further build on Jabra's market-leading UC headset platform and on its market-leading UC/smartphone speaker. In both segments, the platforms will be expanded with new features to capture an increasing share of this growing market.

**Call-centric professional users**
Call-centric headset solutions address professionals with a need for high-quality conversations, and often for a large part of the day, such as contact centers and customer service teams. This is a modestly growing market compared to the UC market, but GN Audio – being a world leader – has identified a number of opportunities to further improve its position. The increasing digitalization of user interaction makes calls more complex, which increases the need for a good call quality. Also, wireless solutions that enable hands-free productivity is in increasing demand as is also the case for high-quality audio solutions as noise and distractions in open offices impacts conversation quality. Jabra's BIZ and Pro portfolio addresses these markets, and further opportunities can be harvested by next generation innovative products.

**Growing share in focus markets**
The market for UC is still largely unexploited and presents further growth opportunities, both in large enterprises and increasingly also in small and medium-sized companies. Jabra's portfolio is highly relevant for these companies with its high-quality conversations, UC compatibility and its easy and broad device integration.

Furthermore, GN Audio will gain share in Contact Centers & Offices (CC&O) in North America through strong commercial excellence, channel growth, SME focus and improved presence in contact centers. Finally, growing share in China, is a key priority in the strategy.

**Digital**
The customer journey is digital. Research, purchase, support and recommendations are all moving online. GN Audio will meet its customers where they are and expand into new markets and digital channels to accelerate Jabra's e-commerce footprint and a best-in-class digital experience.

The digital journey also encompasses our product strategy, where GN Audio will extend the relevance of products with software, community and platforms.

**The consumer segment**

In the consumer segment, focus is to grow in a profitable and disciplined manner as an add on business to our professional headset business. Consumers are moving away from the single-function device, as well as the corded solutions, and moving towards multi-function devices using wireless technology, which is a particular strength of GN Audio.

## People Excellence across the group

It is an integral element of GN's 2017 - 2019 strategy to ensure that all managers and employees across the group thoroughly understand what the company's strategic focus and leadership principles mean for their teams and daily work. And that they are able and willing to execute on the strategy. Excelling in leadership and organizational efficiency is a prerequisite for succeeding with the strategy.

To support this, a set of common company values have been rolled out during 2016. These values – under the headline Listen, Challenge, Transform – and the core element of our promise to users – Hear More, Do More, Be More – are also the foundation for the principles upon which GN's leaders must lead: ENGAGE people, ACCELERATE performance, INSPIRE innovation.

To further support effective strategy implementation and execution, a new ambitious GN leadership development program has been designed specifically to create a firm link to the execution of the 2017 - 2019 strategy and the culture we want to build.

To stay competitive and win in the market, it is critical for GN to employ the right people with the right mind-set and the right performance – and enable them to work in a structured and efficient manner. A series of new initiatives will be launched to further empower employees.

A talent review and succession planning program is already implemented, but will be expanded into a structured, ongoing process in management teams. The objective is to make talent development a source of competitive and strategic advantage for GN.

# 5th generation 2.4 GHz wireless product family

Groundbreaking innovation in Smart Hearing coming in 2017

# Consolidated financial highlights

| DKK million | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| **GN Hearing (excl. GN Otometrics)** | | | | | |
| Continuing operations | | | | | |
| Revenue | 3,423 | 3,636 | 3,892 | 4,526 | 5,156 |
| Organic growth | 5% | 10% | 8% | 9% | 6% |
| Gross profit margin* | 61.1% | 65.8% | 68.8% | 67.4% | 69.0% |
| EBITA* | 503 | 775 | 833 | 921 | 1,062 |
| EBITA margin* | 14.7% | 21.3% | 21.4% | 20.3% | 20.6% |
| EBITA reported | 273 | 671 | 833 | 921 | 1,062 |
| ROIC (EBITA/Invested capital) | 6% | 14% | 16% | 16% | 17% |
| Free cash flow excl. company acquisitions and divestments | 108 | 50 | 368 | 456 | 704 |
| Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA) | 40% | 7% | 44% | 50% | 66% |
| **GN Audio** | | | | | |
| Revenue | 2,355 | 2,612 | 2,871 | 3,229 | 3,495 |
| - CC&O | 1,530 | 1,591 | 1,854 | 2,148 | 2,593 |
| - Mobile | 825 | 1,021 | 1,017 | 1,081 | 902 |
| Organic growth | 7% | 18% | 11% | 2% | 7% |
| - CC&O | 5% | 12% | 18% | 6% | 18% |
| - Mobile | 11% | 27% | (1)% | (5)% | (16)% |
| Gross profit margin | 54.2% | 52.7% | 53.6% | 52.6% | 52.7% |
| EBITA | 362 | 472 | 521 | 540 | 597 |
| EBITA margin | 15.4% | 18.1% | 18.1% | 16.7% | 17.1% |
| ROIC (EBITA/Invested capital) | 57% | 65% | 57% | 47% | 41% |
| Free cash flow excl. company acquisitions and divestments | 236 | 178 | 340 | 271 | 523 |
| Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA) | 65% | 38% | 65% | 50% | 88% |
| **GN Store Nord** | | | | | |
| **Continuing operations** | | | | | |
| Revenue | 5,778 | 6,248 | 6,763 | 7,755 | 8,651 |
| Organic growth | 6% | 13% | 9% | 6% | 6% |
| Gross profit margin* | 58.3% | 60.3% | 62.4% | 61.2% | 62.4% |
| EBITA* | 798 | 1,217 | 1,196 | 1,383 | 1,583 |
| EBITA margin* | 13.8% | 19.5% | 17.7% | 17.8% | 18.3% |
| EBITA reported | 568 | 1,113 | 1,196 | 1,383 | 1,583 |
| Operating profit (loss) reported | 480 | 1,050 | 1,132 | 1,149 | 1,445 |
| Financial items, net | (62) | (81) | (80) | (138) | (52) |
| Profit (loss) before tax reported | 420 | 968 | 1,057 | 1,016 | 1,395 |
| Effective tax rate | 31% | 28% | 29% | 26% | 22% |
| Profit (loss) for the year reported | 290 | 695 | 749 | 747 | 1,086 |
| Total assets | 8,199 | 8,963 | 10,229 | 11,176 | 12,835 |
| Consolidated equity | 5,542 | 5,330 | 5,667 | 5,764 | 5,620 |
| ROIC (EBITA/Invested capital) | 8% | 20% | 19% | 20% | 20% |
| Earnings per share, basic (EPS) from continuing operations | 1.62 | 4.15 | 4.61 | 4.79 | 7.34 |
| Earnings per share, fully diluted (EPS diluted) from continuing operations | 1.60 | 4.11 | 4.57 | 4.77 | 7.32 |
| Investments in property, plant and equipment | (98) | (114) | (95) | (171) | (106) |
| Free cash flow excl. company acquisitions and divestments | 2,765 | 96 | 561 | 607 | 1,179 |
| Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA) | 487% | 9% | 47% | 44% | 74% |
| **Continuing and discontinued operations** | | | | | |
| Equity ratio | 67.6% | 59.5% | 55.4% | 51.6% | 43.8% |
| Net interest-bearing debt | 230 | 1,113 | 1,631 | 2,212 | 3,377 |
| Net interest-bearing debt (period-end)/EBITDA | 0.3 | 0.9 | 1.1 | 1.4 | 1.9 |
| Payout ratio | 17% | 18% | 19% | 20% | 17% |
| Share buybacks** | 1,614 | 787 | 877 | 1,162 | 1,272 |
| Outstanding shares, end of period (thousand) | 170,486 | 164,740 | 159,592 | 152,254 | 143,471 |
| Average number of outstanding shares, fully diluted (thousand) | 180,613 | 168,891 | 163,619 | 156,734 | 148,361 |
| Treasury shares, end of period (thousand) | 23,211 | 8,589 | 8,429 | 9,937 | 11,317 |
| Share price at the end of the period | 82 | 133 | 135 | 125 | 146 |
| Market capitalization | 13,980 | 21,910 | 21,513 | 19,032 | 20,990 |

* Excluding SMART restructuring costs in GH Hearing in 2012 and 2013

** Including buybacks as part of the share based incentive programs

# Group performance 2016

GN Store Nord delivered strongly also in the last year of the 2014 - 2016 strategy period. Revenue growth was 12% and organic revenue growth was 6%. EBITA improved by 14% based on strong execution in both GN Hearing and GN Audio. With the recently launched strategy for 2017 - 2019: Hear More, Do More, Be More, GN will continue its strong profitable growth

**Revenue**
In 2016, the GN increased revenue to DKK 8,651 million from DKK 7,755 million in 2015. Organic growth reached 6%. The foreign exchange contribution was around 2% and M&A contribution was around 3%. The solid growth reflects a strong development in both GN Hearing and GN Audio driven by innovative product portfolios and strong commercial execution. During the strategy period 2014 - 2016, GN has increased revenue by more than DKK 2 billion and EBITA has increased by almost DKK 400 million.

**EBITA**
In 2016, GN generated EBITA of DKK 1,583 million, which was 14% higher than in 2015. Before transaction related costs of DKK 42 million related to Audigy Group and Otometrics during 2016, the growth rate was 17%. The strong growth led to an increasing EBITA margin from 17.8% in 2015 to 18.3% in 2016. GN's earnings improvement is a reflection of the strong revenue development and was achieved even with significant investments made in future growth opportunities. Favorable foreign exchange rate development also contributed to the positive development in 2016.

**Net profit**
Amortization of acquired intangible assets was DKK (109) million, while gain (loss) on divestment of operations etc. ended at DKK (29) million. Financial items ended at DKK (52) million. The positive development compared to 2015 is primarily explained by a positive contribution from foreign exchange adjustments of certain balance sheet items. The effective tax rate was 22.2%, and the net profit thereby ended at DKK 1,086 million in line with guidance.

**Other performance indicators**
Also in 2016, GN's continued efforts to increase cash flows led to material improvements with the group's cash conversion ending at 74% in 2016. This is 30 percentage points higher than in 2015. Both GN Hearing and GN Audio drove the improvement and the level is on par with/above industry peers. Free cash flow excl. M&A for GN was DKK 1,179 million in 2016, compared to DKK 607 million in 2015.

In 2016, earnings per share (EPS) ended at DKK 7.34, which is an increase of 53% compared to DKK 4.79 in 2015. The positive development was driven by the solid earnings improvements in both divisions. Further, the lower effective tax rate as well as the ongoing share buyback programs drove growth in EPS.

GN's return on invested capital (ROIC) was 20% in 2016 corresponding to a flat development versus 2015. The strong

Financial overview FY 2016

| | GN Hearing | | | GN Audio | | | Group total* | | |
|---|---|---|---|---|---|---|---|---|---|
| DKK million | FY 2016 | FY 2015 | Growth | FY 2016 | FY 2015 | Growth | FY 2016 | FY 2015 | Growth |
| Revenue | 5,156 | 4,526 | +14% | 3,495 | 3,229 | +8% | 8,651 | 7,755 | +12% |
| Organic growth | 6% | 9% | | 7% | 2% | | 6% | 6% | |
| Gross profit | 3,558 | 3,052 | +17% | 1,843 | 1,697 | +9% | 5,401 | 4,749 | +14% |
| Gross margin | 69.0% | 67.4% | +1.6%p | 52.7% | 52.6% | +0.1%p | 62.4% | 61.2% | +1.2%p |
| EBITA | 1,062 | 921 | +15% | 597 | 540 | +11% | 1,583 | 1,383 | +14% |
| EBITA margin | 20.6% | 20.3% | +0.3%p | 17.1% | 16.7% | 0.4%p | 18.3% | 17.8% | +0.5%p |
| Earnings per share (EPS) | | | | | | | 7.34 | 4.79 | +53% |
| Free cash flow excluding M&A | 704 | 456 | 54% | 523 | 271 | +93% | 1,179 | 607 | +94% |

Note: All numbers are excluding Otometrics *) Including "Other" earnings growth has been a positive contributor. The acquisitions of Audigy Group and VXi Corporation in the second half of 2016 have increased invested capital, which naturally has a negative short term impact on ROIC.

**Dividend and share buyback programs**
During 2016, GN continued to return capital to shareholders driven by the solid cash flow generation. GN has distributed almost DKK 1.4 billion to shareholders in 2016 divided into DKK 161 million as dividend and DKK 1,203 million as part of the share buyback programs.

As of February 9, 2017, GN has repurchased shares for an amount of DKK 348 million in 2017. Further, the current share buyback program, which was initiated in March 2016, will be concluded no later than on March 13, 2017. GN Store Nord's Board of Directors intends, when the current share buyback program expires in March 2017, to start a share buyback program of DKK 3 billion to run during GN's 2017 - 2019 strategy period, subject to approvals received at Annual General Meetings.

The Board of Directors will propose to pay out DKK 1.15 per share in dividend for the fiscal year 2016 (equivalent to a total dividend of DKK 178 million) compared to DKK 0.99 per share last year equivalent to an increase of 16%.

**Capital structure**
As communicated on GN's Capital Markets Day in September 2016, GN is targeting to have net interest-bearing debt of one to two times of EBITDA. At the end of 2016, the net interest-bearing debt amounted to DKK 3,377 million corresponding to 1.9 times EBITDA before the closing of the divestment of Otometrics.

As of February 9, 2017, GN holds 13,603,715 treasury shares equivalent to 8.8 % of the share capital. At the Annual General Meeting to be held on March14, 2017, the Board of Directors will propose to cancel 9,103,715 shares.

**Claim against Plantronics Inc**
In 2012, GN Audio filed suit against Plantronics for attempted monopolization of the distributors' market in the US. During the discovery phase, GN learned of alleged intentional document destruction. A hearing on the matter was held on May 18, 2016, and on July 6, 2016, the Court issued a sanctions motion ordering Plantronics to pay USD 3 million to GN Audio in punitive damages as well as reasonable fees and costs incurred in connection with the discovery dispute. Further, the Court reserved the right to issue additional evidentiary sanctions and it will instruct the jury that it may draw an adverse inference that emails destroyed by Plantronics would have been favorable to GN Audio's case and/or unfavorable to Plantronics' defense. The Court has set the jury trial for October 10, 2017.

# Financial outlook

GN Store Nord is entering the first year of the strategy 2017 - 2019: Hear More, Do More, Be More, with the ambition to continue to deliver strong profitable growth. GN is strongly positioned in both GN Hearing and GN Audio to benefit from continued attractive market conditions

As part of GN's strategy for 2017 - 2019, GN provided financial targets on various levels of the group. The specific financial outlook for 2017 is closely linked to the targets provided in the strategy:

- For GN Hearing, organic growth is expected to be more than 6% and the EBITA margin is expected to be more than 20%
- For GN Audio, organic growth is expected to be more than 6% and the EBITA margin is expected to be more than 17%
- For GN Store Nord, the effective tax rate for 2017 is expected to be around 22%, which is in line with the level in 2016
- EBITA in Other is expected to be around DKK (125) million, reflecting research activities on a corporate level

In 2017, GN Store Nord expects a mid-teens percent increase in earnings per share (EPS).

## GN Hearing

**Financial guidance 2017**
GN Hearing expects continued solid revenue growth in 2017. Organic growth is expected to be more than 6%. As outlined in the strategy for 2017 - 2019, GN Hearing will execute strongly on the three cornerstones of the strategy, Innovation Excellence, Commercial Excellence and People Excellence, which all will contribute to a solid growth momentum in 2017.

The EBITA margin in GN Hearing is expected to be more than 20% in 2017. GN Hearing will increase investments in future growth opportunities in 2017 as described in the strategy for 2017 - 2019.

Reflecting planned product launches during the year, GN Hearing expects more than usual seasonality in revenue growth and EBITA during 2017. Organic growth rates and earnings levels are expected to be lower in the first half of 2017 compared to the second half, also as a reflection of the comparison base in 2016.

**Market projections**
In the strategy for 2017 - 2019, GN Hearing estimates market growth to be around 4 - 6% in volumes with ASP declines of around 1 - 2% annually. For 2017, GN Hearing expects market growth to be within this range. Geographically, GN Hearing expects the market growth to be broad based across all the three reporting regions; North America, Europe and Rest of World.

## GN Audio

**Financial guidance 2017**
In 2017, GN Audio expects to deliver more than 6% organic growth and to continue the solid growth momentum experienced during 2016 based on strong execution of the initiatives in the strategy for 2017 - 2019.

GN Audio expects the EBITA margin to be more than 17% in 2017. GN Audio expects that the EBITA margin will benefit from operational leverage due to the expected revenue growth and improved product mix, however partly offset by investments in future growth opportunities.

### Financial guidance 2017*

| | Organic revenue growth | EBITA | Effective tax rate |
|---|---|---|---|
| GN Hearing | > 6% | > 20% | |
| GN Audio | > 6% | > 17% | |
| Other (DKK million) | | ~ (125) | |
| GN Store Nord | | | ~ 22% |

* Based on foreign exchange rates as of February 1, 2017

2017 is, as in previous years, expected to show a seasonal pattern with EBITA expected to be skewed towards the second half of the year – particularly in Q4.

**Market projections**
In CC&O, the market is projected to maintain strong growth rates driven by the continued increased penetration of Unified Communications (UC) solutions tailored to the new generations' working culture and seamless integration between applications and devices.

In the consumer segment, the market is expected to be characterized by a continued decline in the Bluetooth mono headset market. It is expected that the market for Bluetooth stereo headset solutions – including important sub segments as neckband, sport and true wireless – will show a positive trend in 2017.

## Other activities and tax

EBITA in Other is expected to be around DKK (125) million in 2017 (DKK (76) million in 2016). The cost primarily reflects costs from Group Functions, including new business opportunities and research projects.

As it was announced in the strategy for 2017 - 2019, GN is expecting an effective tax rate around 22% in the period, which also is expected to be the level in 2017.

# GN Hearing

2016 was another strong year for GN Hearing with market share gains for the sixth consecutive year. With the newly launched strategy for 2017 - 2019: Hear More, Do More, Be More, GN Hearing will continue its profitable growth based on Innovation Excellence, Commercial Excellence and People Excellence

Market share gains

6 years

in a row

Revenue growth

14%

6% organic revenue growth

Growth in EBITA

15%

vs 2015

4,300

employees worldwide

9.8%

of revenue invested into R&D

Growth & focus

Audigy Group acquired

Otometrics divested

**Highlights 2016**

- Revenue growth was 14% of which organic growth was 6%, underlining GN Hearing's very strong momentum
- EBITA increased by 15%. Before transaction related costs, the increase was 20%
- Cash conversion improved strongly to 66% in 2016 from 50% in 2015
- Launch of strategy for 2017 - 2019: Hear More, Do More, Be More, focusing on Innovation Excellence, Commercial Excellence and People Excellence
- During 2016, Audigy Group was acquired and an agreement to divest Otometrics was finalized to strengthen GN Hearing's focus and strategic direction

GN Hearing delivered a strong performance also in the last year of the strategy period 2014 - 2016. Commercial execution and superior product offering, led by the flagship product ReSound LiNX², drove the strong growth in revenue and earnings.

GN Hearing's leading, full hearing aid portfolio – addressing all types of hearing loss, form factor preference and price preference – has been a key driver for growth and further market share gains. The products have received praise and recognition from users and customers, as well as organizations both within and outside of the hearing aid industry.

In 2016, GN Hearing also delivered a strong increase in free cash flow and the corresponding cash conversion ratio. GN Hearing's achieved level is on par with/above industry peers.

GN Hearing's strategy for 2017 - 2019: Hear More, Do More, Be More, was announced in September 2016 and will set the direction for the next three years. The strategy is built on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence. This will be the foundation for GN Hearing's target of continued leading profitable growth in the coming strategy period.

# What you wish for . . .

## Win Whittaker's wishes for his next set of hearing aids

GN Hearing continues to innovate the hearing care industry. As wearers' expectations evolve, GN Hearing is listening to them, in order to constantly improve the support provided to dispensers. The ultimate target is to help wearers, such as mountaineer Win Whittaker, reach best possible outcome throughout their hearing journey.

"When the audiologist fitted these ReSound LiNX$^2$ hearing aids to me, I was blown away," said Win Whittaker. "Without the audiologist laying the groundwork, you're lost. There's been a few times that I've wanted to go back into the audiologist for fine-tuning, but I'm an hour and a half away. If I could be fine-tuned in my own environment, that would be awesome!"

With a Smarter Fitting solution, part of ReSound's upcoming 5$^{th}$ generation 2.4 GHz wireless technology, GN Hearing will eliminate obstacles of time and distance, exactly as Win Whittaker wishes.

Today, hearing aid fitting is a one-way process without real-world input. Tomorrow, GN Hearing technologies enable hearing aids to fine-tune in real-life situations – be that on a remote mountain slope or in a noisy restaurant. The result will be even better and more personalized sound.

**Revenue**

Revenue reached DKK 5,156 million in 2016. Revenue growth was 14% with organic growth being 6%. The foreign exchange development impacted revenue positively by around 4%, while M&A contribution was around 4%.

**Earnings and other financial highlights**

In 2016, GN Hearing's gross profit was DKK 3,558 million, which was 17% higher than in 2015. The gross margin increased to 69.0% from 67.4% in 2015.

EBITA increased to DKK 1,062 million in 2016 from DKK 921 million in 2015 – an increase of 15%. Before transaction-related costs of DKK 42 million related to Audigy Group and Otometrics, the increase was 20%.

Free cash flow excl. M&A for 2016 was DKK 704 million equaling a cash conversion of 66%. This represents an increase in cash conversion of 16 percentage points compared to 2015 and is on par with/above industry peers. The strong development in cash conversion was driven by a continued focus on working capital optimizations and strict control on balance sheet items.

GN Hearing's ROIC for 2016 reached 17%, compared to 16% in 2015. The improvement in ROIC during the strategy period has been achieved despite GN Hearing's investments in growth, including the acquisition of Audigy Group in July 2016.

**Business highlights**

*Product introductions*

During 2016, GN Hearing further strengthened its market leading hearing aid product portfolio based on 2.4 GHz technology and continues to bring innovative solutions to the market.

In March 2016, ReSound ENZO$^2$ was launched globally, building on the successful US launch in the fall of 2015. ReSound ENZO$^2$ brings the unique benefits of ReSound LiNX$^2$ to people with severe to profound hearing loss. ReSound ENZO$^2$ is the only Smart Hearing aid for Super Power users that offers Made for iPhone connectivity, an exceptional hearing experience with greater audibility, better speech understanding and improved spatial awareness.

In September 2016, a new mini-BTE – the world's only mini-BTE hearing aid to feature Made for iPhone and telecoil capabilities – was added to the innovative 4$^{th}$ generation 2.4 GHz, ReSound LiNX$^2$, product portfolio.

During 2017, GN Hearing's 5$^{th}$ generation of hearing aids based on 2.4 GHz wireless technology will be launched. The product family will include innovative improvements to increase user satisfaction through a better restoration of natural hearing as well a more active user involvement in the fitting process of the hearing aids. This next breakthrough will strengthen GN Hearing's audiological footprint by providing the best sound quality and solidify its position as the industry's undisputed leader in 2.4 GHz solutions by bringing connectivity to a completely new level.

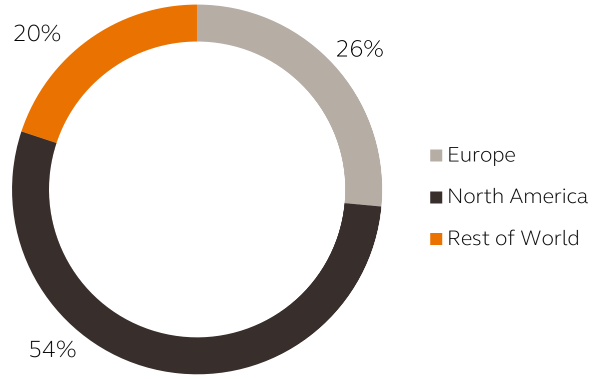
*New company name*

As part of GN's new company and brand platform announced in May 2016, GN ReSound changed its name to GN Hearing. ReSound remains the flagship hearing aid brand and will be operated together with other focused brands such as Beltone and Interton.

*Audigy Group*

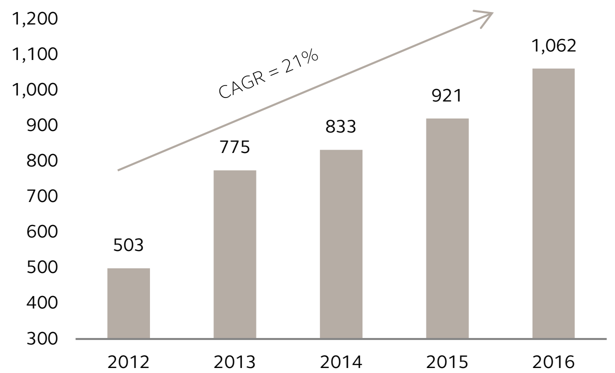
In July 2016, GN Hearing completed the acquisition of the US based company Audigy Group, a leading provider of business and performance management solutions to independent hearing care practices. The acquisition of Audigy Group will

Revenue distribution




EBITA development

(DKK million)




Note: Excluding Otometrics and SMART restructuring costs further support GN Hearing's strong momentum allowing GN Hearing to be an even better partner to its customers and it further strengthens GN Hearing's position in the important US hearing aid market. In addition to the acquisition, GN Hearing has signed a long-term supply agreement with Audigy Group.

*Costco*

On August 1, 2016, ReSound Cala was launched in the branded category of Costco's hearing aid business. The new, exceptionally strong product offering allows GN Hearing to increase its share in the branded category where there is good potential for profitable growth in years to come. Also, the launch allows GN Hearing to further leverage the strong brand recognition of its main brand, ReSound. Since it was introduced in Costco, ReSound Cala has performed strongly. In 2015, and in the first part of 2016, GN Hearing was the supplier of the private label brand in Costco (Kirkland Signature).

*Strategy 2017 - 2019: Hear More, Do More, Be More*

At GN's Capital Markets Day in September 2016, GN Hearing announced its strategy for the coming three-year period. The strategy is founded on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence.

GN Hearing's financial targets for 2017 - 2019 is to deliver 6 - 8% organic revenue growth per year (CAGR) and an EBITA margin of 20 - 22%.

*Otometrics*

In September 2016, GN Hearing announced the divestment of Otometrics to Natus Medical. Following the divestment, GN Hearing and Natus Medical will work together as strategic partners to jointly leverage the strengths of GN Hearing and Natus Medical. The divestment will further strengthen GN Hearing's focus and strategic direction. The strategic partnership will, among other things, include a collaboration on the world's first complete digital 3D ear scanning solution, OTOSCAN. On January 3, 2017, all necessary conditions and regulatory approvals were met and the divestment completed.

*Veterans Affairs*

GN Hearing has fortified its position as the second largest supplier in the VA channel in 2016. GN Hearing continues to benefit from continued focused efforts in the channel combined with a market-leading product portfolio. During 2016, GN Hearing's market share (value) in VA increased from 16% in 2015 to 20% in 2016.

*Cochlear*

The Smart Hearing Alliance, a co-development and co-commercialization partnership announced in October 2015, has proven successful in 2016 with the commercial introduction of a bimodal hearing solution combining GN Hearing's hearing aids with Cochlear's implants. In early 2016, the Smart Hearing Alliance was introduced in the US and has subsequently been introduced in key markets throughout 2016. The cooperation with Cochlear, which was established in 2011 as a technology partnership, reflects GN's ambition to enter into strategic partnerships, as most recently seen with Audigy Group and with Natus Medical. The strategic partnerships allow GN to leverage its technology leadership while ensuring that GN remains focused on its core businesses and competencies.

*Beltone Network*

In January 2016, a new president joined the Beltone Network. Following this change, the development in the network has been positive. Beltone is a strong and recognized brand in the US hearing aid market and GN's goal is, as part of the ambitious strategy for 2017 - 2019, to further strengthen Beltone in order to build the network for the future, with transformational growth, a culture of continuous improvement and even stronger brand awareness.

*Apps*

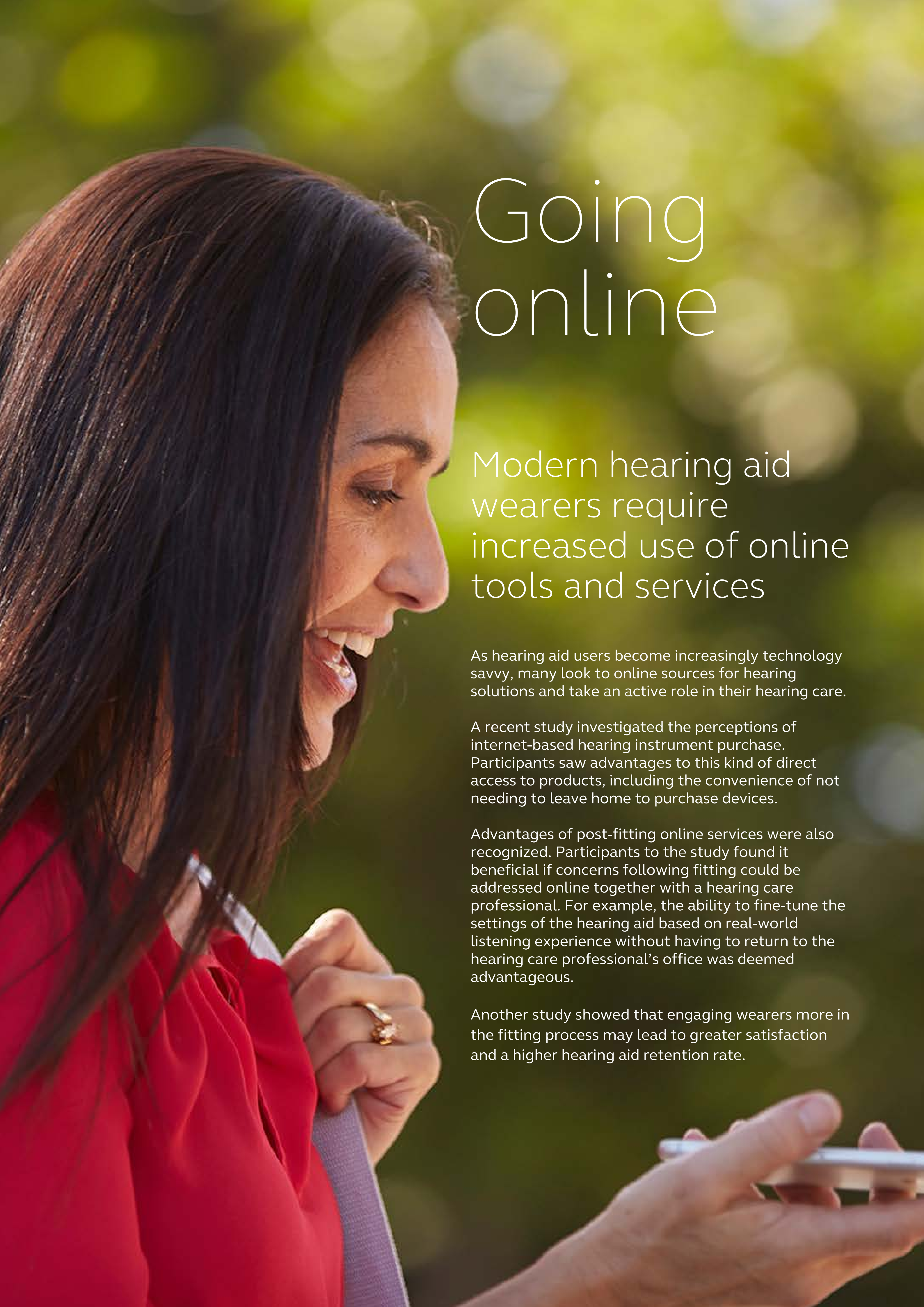
Apps are becoming increasingly important and are today an integrated part of a successful hearing aid experience. GN Hearing is at the forefront of this development and has developed a number of market-leading apps available to hearing aid users. During 2016, GN Hearing updated the ReSound Relief app with new functionalities, which is an important tool for people with tinnitus. The app offers a combination of sound therapy and relaxing exercises that aim to distract people from focusing on their tinnitus, which is, for example, important in the VA segment. In 2017, GN Hearing will launch its 5$^{th}$ generation of 2.4 GHz hearing aids taking the hearing aid user experience to a new level and the app functionalities will be an important part of this journey.

*R&D*

Innovation Excellence is a cornerstone in GN Hearing's strategy for 2017 - 2019. GN Hearing is committed to maintaining its technology leadership and continues to move the boundaries for the benefits achievable with hearing aids. This relentless R&D focus resulted in the world's first 2.4 GHz hearing aids, launched in 2010, and has resulted in new, continuously improved generations, with the 2$^{nd}$ generation in 2012, the 3$^{rd}$ generation in 2014 and the 4$^{th}$ generation – ReSound LiNX$^2$ – in 2015. During 2016, GN Hearing has worked on future hearing aid technologies both within hardware and software components and, in 2017, GN Hearing will bring a new innovative hearing aid family to the market based on the 5$^{th}$ generation of 2.4 GHz technology.

*Marketing*

In the recently launched strategy for 2017 - 2019, GN Hearing has declared Commercial Excellence a key driver for success. The key focus areas for marketing are to drive significantly



# Going online

## Modern hearing aid wearers require increased use of online tools and services

As hearing aid users become increasingly technology savvy, many look to online sources for hearing solutions and take an active role in their hearing care.

A recent study investigated the perceptions of internet-based hearing instrument purchase. Participants saw advantages to this kind of direct access to products, including the convenience of not needing to leave home to purchase devices.

Advantages of post-fitting online services were also recognized. Participants to the study found it beneficial if concerns following fitting could be addressed online together with a hearing care professional. For example, the ability to fine-tune the settings of the hearing aid based on real-world listening experience without having to return to the hearing care professional's office was deemed advantageous.

Another study showed that engaging wearers more in the fitting process may lead to greater satisfaction and a higher hearing aid retention rate.

increased market share in the open market through innovative new product launches and initiatives, further strengthening of GN's partnerships with key accounts around the world, and to drive towards successful digital transformation. A disciplined and deepened understanding of customer and consumer needs and behaviors has allowed for differentiated value-driven programs and campaigns. Among other things, the creation of a separate Digital Transformation organization will enable the necessary developments in the area of e-commerce, business management and lead generation.

*Operations*

In the beginning of 2016, GN Hearing officially opened its expanded hybrid plant in Praestoe, Denmark, with the participation of the Danish Prime Minister. The plant has delivered improved facilities and lowered the risk profile. With the expansion of available space, GN Hearing is ready to meet the continued increase in demand in the years to come.

GN Hearing is constantly aiming to optimize the production setup and to make it even more cost efficient. The main manufacturing facilities for GN Hearing are now in Denmark, the USA, China and Malaysia, with a successful ramp-up in Malaysia during 2016.

**Market development**

GN Hearing estimates that the market has grown 3 -4% in value in 2016, with a slightly negative average selling price (ASP) development.

The global hearing aid market size is estimated to be around 14 million units in 2016.

# GN Audio

During 2016, GN Audio further strengthened its world-leading position in the attractive CC&O market. With the recently launched strategy 2017 - 2019: Hear More, Do More, Be More, GN Audio will continue its strong profitable growth based on the three cornerstones Innovation Excellence, Commercial Excellence and People Excellence

Attractive CC&O business

18%

organic growth vs 2015

Growth in EBITA

11%

vs 2015

1,000

employees worldwide

7.3%

of revenue invested into R&D

Fastest growing company in the professional headset market

**Highlights 2016**

- Revenue growth was 8% of which organic growth was 7%
- EBITA increased by 11% to DKK 597 million
- Cash conversion improved to 88% in 2016 from 50% in 2015
- Launch of strategy 2017 - 2019: Hear more, Do more, Be more focusing on Innovation Excellence, Commercial Excellence and People Excellence
- In October 2016, GN Audio announced the acquisition of US based VXi Corporation

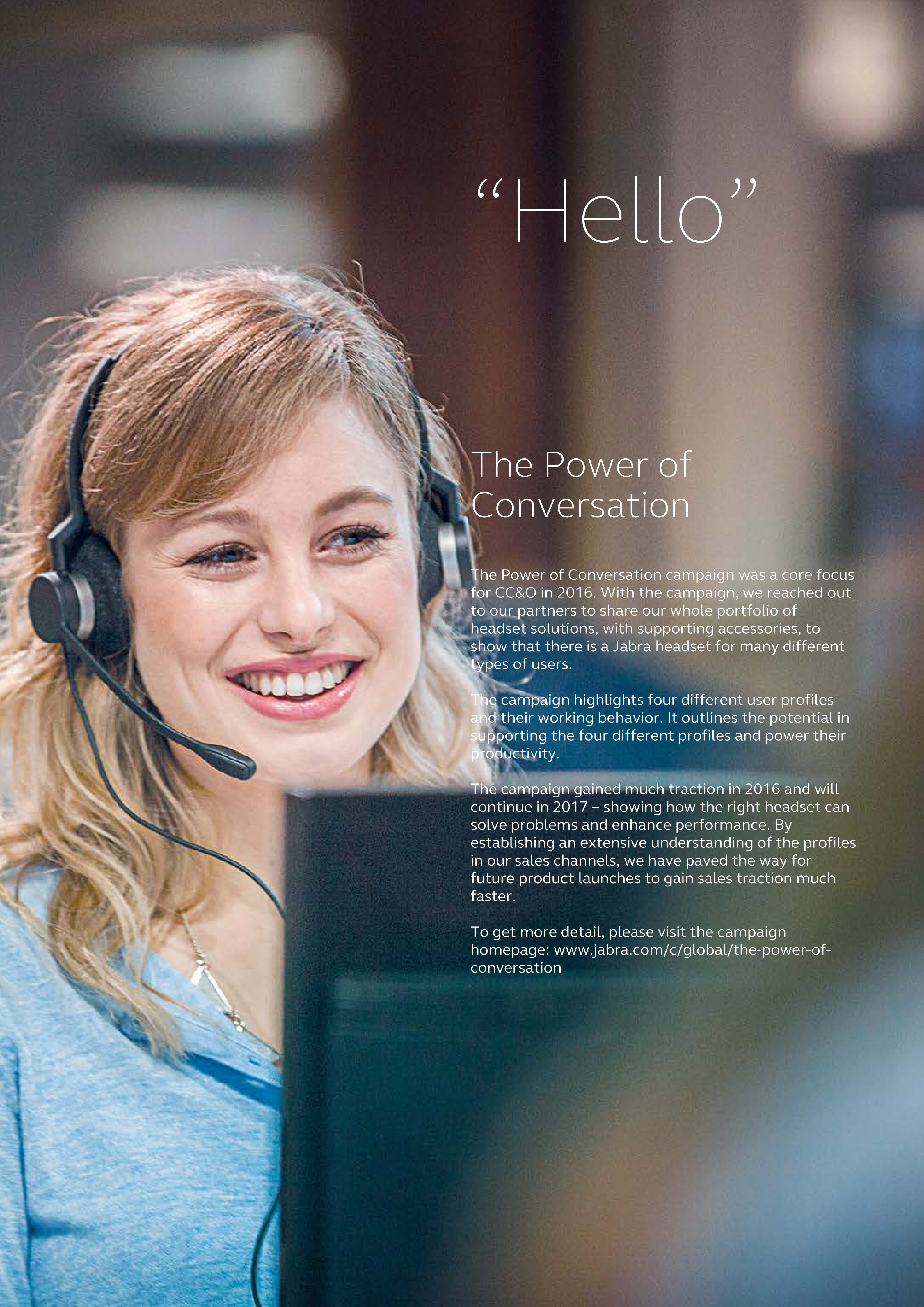
GN Audio continued to execute strongly also in the last year of the 2014 - 2016 strategy. In 2016, GN Audio delivered solid revenue growth, as well as EBITA margin increase. The development was driven by a leading product portfolio and relentless focus on commercialization. Following a successful 2016, GN Audio is well-positioned for the new strategy period.

The positive trend in the global Call Center & Office (CC&O) business continued for GN Audio throughout 2016, particularly driven by a strong development in the Unified Communications (UC) segment. GN Audio gained further market share due to its leading product portfolio and continued strong execution across the organization.

In the Mobile division, GN Audio recorded negative organic growth in 2016, driven primarily by a declining Bluetooth mono headset market.

During 2016, GN Audio has successfully focused on improving its cash flow generation. This has led to a strong increase in free cash flow and the corresponding cash conversion, to the benefit of GN and its shareholders.

GN Audio's strategy for 2017 - 2019: Hear More, Do More, Be More was announced in September 2016 and will set the direction for the next three years. The strategy is built on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence. This will be the foundation for GN Audio's continued strong profitable growth in the coming strategy period.



# "Hello"

## The Power of Conversation

The Power of Conversation campaign was a core focus for CC&O in 2016. With the campaign, we reached out to our partners to share our whole portfolio of headset solutions, with supporting accessories, to show that there is a Jabra headset for many different types of users.

The campaign highlights four different user profiles and their working behavior. It outlines the potential in supporting the four different profiles and power their productivity.

The campaign gained much traction in 2016 and will continue in 2017 – showing how the right headset can solve problems and enhance performance. By establishing an extensive understanding of the profiles in our sales channels, we have paved the way for future product launches to gain sales traction much faster.

To get more detail, please visit the campaign homepage: www.jabra.com/c/global/the-power-of-conversation

**Revenue**

In 2016, revenue reached DKK 3,495 million compared to DKK 3,229 million in 2015. Revenue growth was 8% with organic growth being 7%. The foreign exchange development had an negligible impact on revenue, while M&A contribution was around 2%. Organic growth in CC&O reached 18%, while the organic growth in Mobile was (16)%. The strong growth in CC&O was broad based, as all regions delivered double-digit growth rates in 2016. The overall organic growth of 7% in GN Audio was therefore within the financial guidance as communicated in the Annual Report 2015 of 7 - 10%.

**Earnings and other financial highlights**

In 2016, the gross profit increased by 9% to DKK 1,843 million. The gross margin was up from 52.6% in 2015 to 52.7% in 2016. GN Audio’s EBITA of DKK 597 million in 2016 was well in line with the financial guidance of “around DKK 590 million” and represents an increase of 11%. The EBITA margin reached 17.1% compared to 16.7% in 2015.

In 2016, cash conversion reached 88%, which is 38 percentage points higher than in 2015. The free cash flow excl. M&A of DKK 523 million in 2016 equals an increase of 93%.

GN Audio’s ROIC for 2016 was 41%, compared to 47% in 2015. The decrease in ROIC was primarily related to the acquisition of VXi Corporation, as well as the appreciating USD, that has a positive impact on the invested capital, but a neutral impact on EBITA.

**Business highlights**

During the year, GN Audio has emphasized The Power of Conversation. The campaign was launched to highlight GN Audio’s ability to empower people with the right headset technology for their needs, which can significantly boost their productivity, improve customer relations and drive efficiency.

GN Audio is persistently investing in sales and marketing in order to continue to deliver attractive revenue growth.

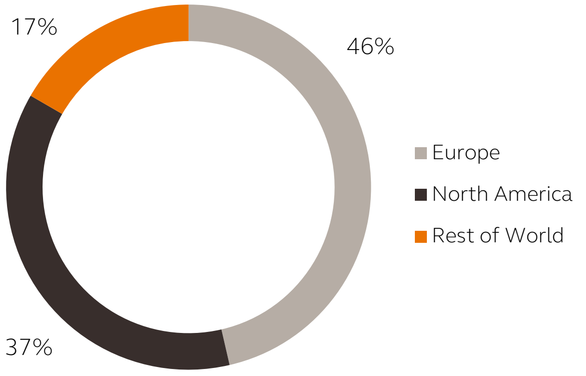
Throughout 2016, the CC&O market conditions were favorable and solid as expected, driven in particular by the UC market. GN Audio expects that the market for UC solutions in coming years will expand from mostly covering large enterprises to also reaching small and medium-sized enterprises (SMEs). In recent years, GN Audio has performed well delivering intelligent audio solutions to larger corporates implementing UC solutions.

As part of the strategy for 2017 - 2019, GN Audio will increase focus and investments in the attractive Chinese market. Accordingly, during 2016, GN Audio established a new organization in China to secure a stronger footprint going forward.

In September 2016, at the IFA international consumer electronics tradeshow in Berlin, GN Audio launched true wireless earbuds under its new Elite franchise with superior sound, long battery life and advanced personalized fitness analysis. Leveraging GN Group’s unique combined headset and hearing aid expertise, GN Audio continues to pioneer unparalleled sound capabilities with the launch of the unrivalled Elite franchise. Benefitting from, among other functionality, being waterproof, Jabra Elite Sport is a true training aid delivering freedom of movement, ground-breaking in-ear fitness analysis and long battery life for anyone who wants to work out. The new product received excellent user reviews.

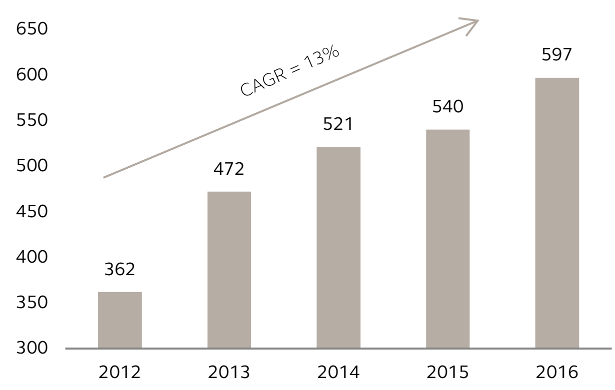
In January 2016, GN Audio participated in the CES trade show in Las Vegas where GN Audio demonstrated its position as a leading company in the market for intelligent audio solutions. GN Audio received two awards for the products: Jabra Sport Coach Wireless and Jabra Steel. At CES, the world was once again reminded that “hearables” – hybrid devices that e.g.

Revenue distribution




EBITA development

(DKK million)



merge health-tracking capabilities with high-quality audio – will offer users an ever increasing range of features and functionalities. As the leader in intelligent audio solutions, GN is uniquely positioned to benefit from this trend and to allow its users to Hear More, Do More and Be More than they ever thought possible.

In January 2017, Jabra announced a new partnership with global athletic leader New Balance that launched RunIQ, a "made to run" smartwatch. In tandem with RunIQ, New Balance offers a Bluetooth wireless sport headphone, PaceIQ, with sound by Jabra.

*New company name*
As part of GN's new company and brand platform announced in May 2016, GN Netcom changed its name to GN Audio. The GN Group's core competencies in the human ear, sound applications, connectivity and miniaturization, all uniquely residing under the same roof, are the foundation for the group's strong brands, where Jabra remains the flagship brand of GN Audio.

*Strategy 2017 - 2019: Hear More, Do More, Be More*
In September 2016, at GN's Capital Markets Day, GN Audio announced its strategy for the coming three-year period. The strategy is founded on three cornerstones: Innovation Excellence, Commercial Excellence and People Excellence.

To ensure strategy execution – particularly within Commercial and Innovation Excellence – a platform approach is being implemented across professional and consumer products. A combined product management function across the professional and consumer segments and a unified distribution sales organization will enable maximum utilization of technology, product and brand investments, as well as address changing partner and distribution patterns.

GN Audio's financial targets for 2017 - 2019 is to deliver 6 - 9% organic revenue growth per year (CAGR) and an EBITA margin of 17 - 19%.

*VXi Corporation*
In October 2016, GN Audio completed the acquisition of VXi Corporation – a leading US based manufacturer of professional headset solutions. Since 2005, VXi Corporation has grown its revenue at double-digit annual rates and at the same time delivered strong double-digit EBITDA margins. The acquisition of VXi Corporation will further strengthen GN Audio's presence and market share in the important North American market, as well as enable access to new attractive segments, among other things leveraging VXi Corporation's best-in-class expertise within communication in high noise environments. The integration of VXi Corporation into GN Audio progresses well and according to plan.

*R&D*
Throughout 2016, GN Audio's product development focused on cementing Jabra's position as the world leader within professional headsets through the core competencies of wireless technology and intelligent audio solutions. As exemplified by the recent launches of Jabra Elite Sport, Jabra Halo Smart, as well as the two new Special Editions within the Sport Audio segment, the innovation in headsets and earbuds continued with high pace based on extensive research into customer needs and focused on delivering outstanding user benefits.

In recent years, software has become increasingly important in the development of intelligent headsets and earbuds. The distinctive functionalities of directional microphones that eliminate background noise or apps used for sport coaching are examples of software technology being critically important for delivering product benefits. Software is also an important contributor in delivering excellent sound experience as exemplified by products like Jabra Elite Sport.

*Operations*
Carefully selected subcontractors manufacture all of GN Audio's hardware and components are sourced from trustworthy suppliers. GN Audio is working with a small number of tier-one manufacturers supported by more than 100 sub-suppliers in order to produce the comprehensive variety of products in the product portfolio.

To optimize lead-time, GN Audio maintains a regional presence at three regional warehouses located in the USA, the Netherlands and Hong Kong. The global distribution of GN Audio's products are handled by one partner responsible for the entire process – from leaving the factories via warehouses to the final delivery to the specific customer.

**Market development**
Following significant investments in the further expansion of UC software deployment during 2015, the overall CC&O market showed solid growth rates in 2016 and the market continues to develop favorably. GN Audio expects that the market trend will continue beyond 2016 creating a solid foundation for continued growth.

Long-term growth in the CC&O market is supported by the expected further adoption of UC, driven by proliferation of software-based desktop communications clients, productivity benefits, including hands-free communications and an efficient work environment with a growing number of open workspaces.

The consumer electronics market, as illustrated by parts of the smart phone market, showed a volatile and negative development during 2016. In addition, the challenges faced in the Bluetooth mono headset market during 2015 have continued in 2016 and are expected to continue into 2017.

# True wireless

## Jabra cuts the cord with state-of-the-art earbuds

September saw the global announcement of the most technically advanced true wireless sports earbuds: Jabra Elite Sport.

These new cord-free earbuds provide superior sound, strong battery life and advanced personalized fitness analysis. Jabra Elite Sport has four microphones for intelligent switching during calls, secure fit, a cord–free wearing style with dual or single earbud use, advanced personalized fitness analysis using in-ear heart rate monitor and up to three hours of stereo music and calls, plus six hours additional charge from the carry case.

As such, Jabra Elite Sport is the most technically advanced, true wireless sports earbuds available on the market today. The state-of-the-art earbuds deliver premium audio quality for calls and music without wires.

# Corporate responsibility

GN Store Nord considers acting in a responsible manner to be crucial to managing a long-term sustainable successful global business. Examples of GN's corporate responsibility activities in 2016 are summarized below

## Human and labor rights

**People**
Developing talents of today into tomorrow's leaders is important to continue the group's growth. Our mentoring program is a strategic development activity, which aims at developing high performers and grow a leadership pipeline.

GN has initiated two global mentorship programs in 2016. One program focuses on our young talents who are part of our graduate program and another on growing mid-level managers into more senior management positions. In addition, two focused mentorship programs within Global Marketing (GN Audio) and Global Operations (GN Hearing) have been set up.

## Environment

**Returns and service flow**
In 2016, GN Hearing has optimized its returns and service flow to service consumers better and utilize returned goods more responsibly.

This effort has resulted in better reuse of returned products. Today, 80% of returned products are reused directly and we continue to work to increase this percentage.

## Anti-corruption

**Business ethics**
GN's commitment to business ethics and compliance with international regulation and internal policies is anchored in our ethics guide, our code of conduct and other internal guidelines. These outline the fundamental requirements for how GN operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners. To ensure and document employees' familiarity with the code of ethics and key policies at all times, relevant employees electronically sign off on their compliance within specific areas and take GN's e-learning courses within anti-corruption and competition compliance on a regular basis. This is supplemented with face-to- face compliance training for selected groups of employees.

**Whistleblower system**
GN has implemented the Alertline, a global whistleblower system. This system allows, in multiple languages, all employees and external stakeholders to confidentially report illegal or unethical conduct via the internet or via one of the local Alertline phone numbers.

In 2016, GN received six reports within the scope of issues which may be reported through the hotline.

## Citizenship

**Access to healthcare: Hearing aid project in South Africa**
GN's hearing aid donation program in South Africa continues to improve quality of life for many impoverished South Africans. The donation program provides recipients with new hearing aids along with professional fitting by a GN educated audiologist.

*INTERESTED IN LEARNING MORE ABOUT GN'S RESPONSIBILITY ACTIVITIES?*
GN's Communication on Progress report to the United Nations Global Compact outlines GN's full corporate responsibility activities and is available on www.gn.com/-/media/Files/Document-Download-Center/Corporate-responsibility/COP2016.pdf. The report represents GN's mandatory account for corporate responsibility according to §99a in the Danish Financial Statement Act.

# Risk management

## Operating in business environments characterized by constant innovation and change, GN Store Nord's Executive Management considers its proactive and systematic approach to risk management a valuable tool in its continuous efforts to stay ahead of new developments and win in tomorrow's marketplace

Facilitated and supported by the GN's risk management function, key risks are identified and assessed by GN's management teams on a regular basis across the entire value chain.

The global management teams in GN Hearing and GN Audio subsequently evaluate the most significant risks across the two businesses and to determine whether any additional or different actions should be taken in order to mitigate them or potentially turn them into opportunities.

At least once a year, the risks assessed to be the most material are reported to and discussed with the audit committee and subsequently the Board of Directors.

The overall aim of this integrated approach to risk management is to enable GN to reap the rewards of more coordinated, informed and intelligent risk-taking.

The main risks associated with GN's business and the main initiatives taken to manage them are outlined below.

### Main risks associated with GN's businesses

**A** Research and development ▷ **B** Operations ▷ **C** Marketing and sales

**D** Regulatory risk

**E** Intellectual property rights

**F** Information security

**G** Human resources

**H** Financial risk

| Risk | Characteristics | Mitigating actions |
|---|---|---|
| A<br>Research and development | Both GN Hearing and GN Audio operate in markets with relatively short product life cycles and intense competition. The ability to deliver continued innovation and growth, therefore, depends on the ability to anticipate the needs of customers and users and develop new solutions and services, which meet those needs in a timely manner. | During the past few years, we have made a number of process improvements and organizational changes to bolster our ability to anticipate the needs and dynamics in the entire consumer journey and to address those needs in the most purposeful and effective way. Such initiatives enable us to further strengthen the development of new intelligent audio solutions. |

| Risk | Characteristics | Mitigating actions |
| --- | --- | --- |
| A<br>Research and development (continued) | The past few years have seen significant advances in exciting new technologies such as artificial intelligence and voice computing, which have the potential to change the way people interact with computers, phones and other smart devices through voice and sound. This is one of the emerging external risks GN may be facing if we fail to position ourselves to take advantage of the new possibilities these technologies bring. | GN keeps a close eye on emerging technology trends and developments that may impact our future business. Internal group-wide processes such as our enterprise risk management and our trendspotting forum are complemented in this effort by external expert input from our Scientific Advisory Board and customer advisory boards. This healthy blend of input for decision-making reduces the risk that GN will be negatively affected by disruptive new technologies. |
| B<br>Operations | GN Hearing and GN Audio both rely on their global supply chains for the timely delivery of critical materials and components, which must meet their high quality standards. Failure of any of the key suppliers to meet agreed deliverables may negatively affect our ability to accommodate demand for GN products or result in safety issues. | To ensure that appropriate risk mitigation plans are always in place for critical materials and components, GN has developed a set of tools to quantify the financial exposure to a long-term interruption of supplies from all key suppliers. This helps us determine whether additional measures must be taken to bring the risk down to the acceptable level. Where possible and feasible, GN targets to pursue a dual sourcing strategy to ensure that GN is able to source the same type of component from at least two different suppliers. For some unique suppliers, other measures are taken to reduce the risk, such as higher inventory buffers, dual sets of production equipment or other initiatives. |
| C<br>Marketing and sales | **GN Hearing**<br>GN Hearing generates a significant part of its revenue from partnerships with a number of leading channels who occasionally put their business up for tender. This means that GN Hearing is exposed to the risk of losing business as these are re-tendered. | This risk is reduced by continuously strengthening these partnerships and integrating our products and services in partners' customer journey. Accordingly, we will stay focused on meeting the needs and demands of our partners and provide them with superior added benefits. |
| | **GN Audio**<br>GN Audio remains well established and positioned as the world's leading supplier in the fast-growing market for Unified Communications (UC) headsets. However, the very attractive growth rates also entail a risk that new competitors will enter the market and challenge GN Audio's position. | GN Audio continually works to build on and expand its world-leading position by developing new, innovative and unique solutions based on deep insights into new trends and developments in user preferences, purchasing patterns, technology and other key trends shaping customer needs and demands. |

| Risk | Characteristics | Mitigating actions |
|---|---|---|
| D<br>Regulatory risk | In the US, the Food and Drug Administration (FDA) is contemplating a deregulation of the sale of hearing aids that would allow for over-the-counter sales. At this time, it remains uncertain what effect this would have on GN and the hearing industry. However, if over-the-counter sales of hearing aids is permitted, new players may enter the market, and we may see downward pressure on prices. | GN monitors the regulatory and political development closely in order to ensure that we will be well prepared for potential changes and fast to adapt. We firmly believe that our strategy to refrain from owning retail outlets in combination with our continued development of strong strategic partnerships makes us less exposed to such changes than hearing aid manufacturers who are vertically integrated, as we will be more agile and resilient. |
| E<br>Intellectual property rights | As GN operates in highly innovative industries and with increased focus on wireless technologies and software, there is a risk that our freedom to operate is restrained by patent barriers, preventing commercialization of certain products or solutions or forcing GN to pay royalty. | During 2016, GN took further steps to strengthen its patent portfolio and optimize key processes related to intellectual property rights. The objective is to protect our freedom to operate within current and future innovation spaces and to defend ourselves in case of patent infringement claims being brought against GN. |
| F<br>Information security | GN's business depends to a large and increasing degree on reliable and secure IT systems. Failure to adequately protect the IT infrastructure and key systems against the risk of security incidents could potentially lead to unavailability of services, unintended disclosure of business-critical confidential data or sensitive personal data, which may negatively affect GN's competitive position, damage its reputation and/or result in fines. | GN minimizes these risks through a wide range of measures, such as technical security controls, various process controls and internal employee awareness campaigns based on its IT security policy framework. Late 2015, external experts conducted a thorough information security risk analysis in order to identify opportunities for further strengthening the defenses and ensure that GN stays on top of evolving threats. This has been the basis for several new risk-mitigating initiatives implemented during 2016. |
| G<br>Human resources | Across GN, the company needs to be able to attract and retain the right talent in order to deliver results, to implement the 2017 - 2019 strategy and to build a sustainable organization for the future.<br><br>In addition, it is key for the company that the organization is fully aligned behind the new strategy and that this translates into flawless strategy execution. | GN's clearly defined people strategy sets the direction for successfully growing a winning organization. This includes a rigorous talent management process, which ensures that we have the right talent in the right positions and that we have clear action plans for our talents. This enables us to create a pipeline of technical and leadership talent for the future.<br><br>Furthermore, GN makes significant investments in an ambitious Leadership Development Program that closely links the development of the individual leader with the implementation of the strategy throughout all parts of GN. |

| Risk | Characteristics | Mitigating actions |
|---|---|---|

## H

## Financial risk

**Characteristics**

Due to the nature of the operations, investments and financing activities, GN is exposed to a number of financial risks. GN has centralized the handling of these financial risks except for commercial credit risk, which is managed by the group's operating businesses. The financial risks are managed in accordance with the overall financial risk management guidelines set out in GN's treasury policy.

Based on the current revenue and cost composition, the table below outlines the primary foreign exchange exposures for GN in 2017 before any impact from hedging. In addition to the exposures outlined in the below table, GN has a significant exposure to EUR in both GN Hearing and GN Audio, which historically has been pegged to the DKK. The exposure is, however, partly hedged via bank loans, which are mainly denominated in EUR.

GN's relentless focus on optimizing its capital structure policy has led to an increasing net interest-bearing debt during 2016, which ended at DKK 3,377 million. GN's loans are based on short term EURIBOR and CIBOR interest rates.

**Annual EBITA impact from a 5% increase in currency excluding hedging** (DKK million)

| Currency | GN Hearing | GN Audio | GN Store Nord |
|---|---|---|---|
| USD | 60 | 1 | 61 |
| GBP | 2 | 7 | 9 |
| JPY | 9 | 3 | 12 |
| CNY | (8) | (1) | (9) |
| CAD | 4 | 0 | 4 |

**Mitigating actions**

GN is hedging the vast majority of the expected EBITA exposure for the next 12 months in the material trading currencies across both GN Hearing and GN Audio.

To mitigate the interest rate risk GN has hedged a large proportion of the floating debt by interest rate swaps.

Please refer to note 4.2 for further information about financial risks.

# Shareholder information

## Through an open and active dialog, GN Store Nord strives to provide all stakeholders with timely and relevant information to ensure a fair pricing of the GN share

**Share price performance**

The price of the GN share ended at DKK 146 on December 31, 2016, which is equivalent to an increase of 17% compared to the end of 2015. In comparison, the C20 Cap index decreased 2%, while the Stoxx Europe 600 index decreased 1%. The total market value of GN's shares, excluding treasury shares, was DKK 21 billion at the end of 2016.

GN is, among others, included in the C20 Cap index, the newly established C25 index and Large Cap index on Nasdaq Copenhagen, as well as the Stoxx Europe 600 index and the Stoxx Europe Sustainability index.

**Ownership**

The GN stock is 100% free float, and the company has no dominant shareholders. T. Rowe Price Associates Inc., Marathon Asset Management LLP and APG Asset Management N.V. have all reported an ownership interest in excess of 5% of GN's share capital. Foreign ownership of GN is estimated to be around 65%.

At the end of 2016, approximately 25,000 registered shareholders held about 92% of the share capital. The 10 largest registered shareholders held in total about 40% of the GN share capital at the end of 2016 (including GN's holding of treasury shares).

**Share capital and voting rights**

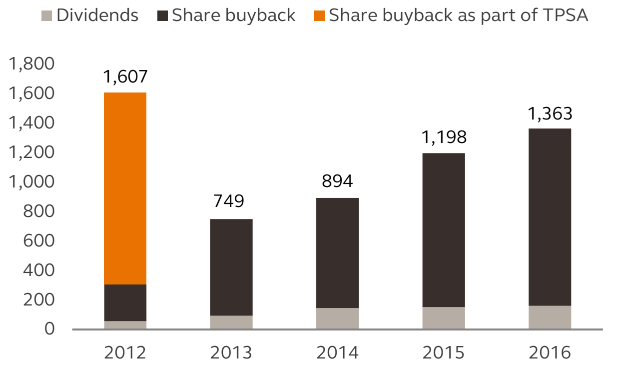
GN's share capital of DKK 619,151,716 consists of 154,787,929 shares, each carrying four votes. GN has one share class, and there are no restrictions on ownership or voting rights.

**Treasury shares**

On December 31, 2016, GN held treasury shares corresponding to 7.3% of the share capital, and the value of the treasury shares was DKK 1,656 million. At the Annual General Meeting to be held in March 2017, the Board of Directors will propose to reduce the company's share capital by cancelling 9,103,715 shares equivalent to all treasury shares held today in excess of 4,500,000 shares – which are held for hedging of long-term incentive programs. Until the Annual General Meeting, the Board of Directors is authorized to acquire shares in GN of up to 10% of the company's share capital.

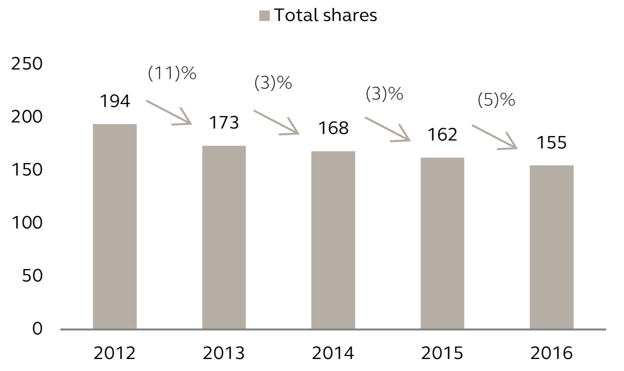
Shareholder return distribution

(DKK million)




Development in total shares

(Million)



## Dividend policy and share buyback programs

GN's overall financial target is to deliver a competitive shareholder return through a combination of dividend payments and share price appreciation. GN aims to pay out a dividend corresponding to 15 - 25% of the annual net profit and to distribute additional excess cash to shareholders through share buyback programs.

Dividend payments and share buybacks are subject to, among other things, cash requirements to support the ongoing operations, strategic opportunities and the company's capital structure. It is GN's target to maintain a capital structure consisting of equity and debt with the net interest-bearing debt amounting between one to two times EBITDA.

At the Annual General Meeting in 2017, the Board of Directors will propose to pay out a total dividend of DKK 178 million (equivalent to DKK 1.15 per share and 17% of the 2016 net profit) in respect of the 2016 financial year, compared to DKK 161 million in 2015 (equivalent to DKK 0.99 per share and 20% of the 2015 net profit).

## Incentive programs

By the end of 2016, the total number of outstanding warrants in GN Hearing was 14,950 (2.2% of the share capital in GN Hearing equivalent to approximately 1.9% of the share capital in GN Store Nord). The total number of outstanding warrants in GN Audio was 9,707 (2.6% of the share capital in GN Audio equivalent to approximately 1.1% of the share capital in GN Store Nord).

## Investor relations policy

As part of GN's investor relations activities, an active dialog is pursued with existing and potential shareholders as well as with financial analysts. GN ensures that relevant and timely information is provided to the financial community to ensure that the GN share is fairly priced. This is accomplished through information continually announced to the market as company announcements, combined with investor meetings, conferences and presentations of the company's interim and annual results.

Following the release of interim and annual results, GN conducts roadshows where the Executive Management and the investor relations team inform investors and financial analysts about the recent developments in the company. GN is currently covered by 28 sell-side analysts who continually release analyst research reports on GN and the industry dynamics. A full list of the analysts covering GN can be found on the website www.gn.com/Investor

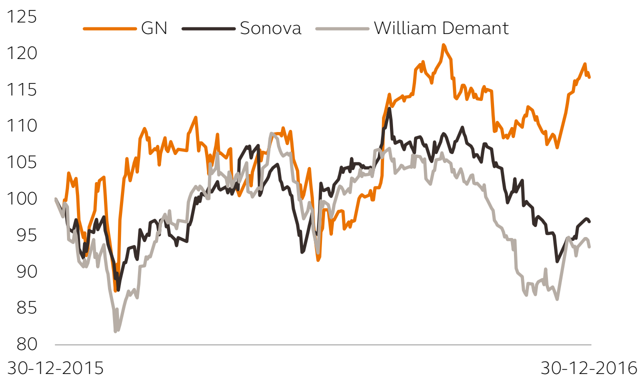
GN has a four-week silent period prior to publication of a financial report. During these silent periods, which can be found on www.gn.com/Investor, any communication with stake-holders is restricted.

GN's website – www.gn.com – contains historic and current information about GN, including company announcements, current and historic share price data, investor presentations and annual and interim reports.

In 2016, the Swedish consultancy, Regi, released its IR Nordic Markets report. The data is based on 455 analyst evaluations of publicly listed, Nordic companies. Among other things, the companies are evaluated on their annual report, capital market day, access to Executive Management, CEO communication skills and the performance of the investor relations department. GN's Vice President for Investor Relations was named the best IR officer in Denmark.

The investor relations team can be contacted at:
Investor@gn.com

### Share price development vs peers*




* Index : 30/12/2015 = 100

### Financial calendar for 2017

| Event | Date |
|---|---|
| Annual General Meeting | March 14, 2017<br>at GN headquarters |
| Interim Report Q1 2017 | May 4, 2017 |
| Interim Report Q2 2017 | August 17, 2017 |
| Interim Report Q3 2017 | November 2, 2017 |

Read company announcements on www.gn.com

# Corporate governance

## GN Store Nord maintains a strong focus on corporate governance through policies, processes and control systems as well as training and follow-up activities

Corporate governance refers to the way a company is managed and controlled through ownership, management structure, incentive schemes etc. GN strives to build trusted relationships with customers, shareholders, suppliers, employees and the community. We also aim to increase transparency and active ownership, including sharing information and engaging in a regular dialog with all of our stakeholders.

The Board of Directors follows all recommendations on corporate governance aimed at companies listed on Nasdaq Copenhagen. On its website, GN provides a statutory report on corporate governance. This overview, as well as the risk management and internal control systems related to financial reporting described in the risk management section in this report, forms the statutory report on corporate governance that is required under section 107b of the Danish Financial Statements Act: www.gn.com/-/media/Files/Document-Download-Center/Corporate-governance/Statutoryreport2016.pdf.

## Board of Directors

**Composition and responsibilities of the Board of Directors**
GN's Board of Directors consists of six directors elected by the shareholders at the Annual General Meeting and three employee representatives elected by the employees based in Denmark. Members of the Board of Directors, elected by the shareholders at the Annual General Meeting, are elected for an annual term until GN's next Annual General Meeting. GN's 2017 Annual General Meeting is held on March 14.

Board members who retire are eligible for re-election. Employee representatives are elected in accordance with the Danish Companies Act for terms of four years.

The Board of Directors is responsible for safeguarding the interests of the shareholders while at the same time considering all other stakeholders. At least once a year, the Board of Directors assesses the most important tasks based on the overall strategic direction of the company, including the financial and managerial supervision of the company. As part of the supervision, the Board of Directors evaluates the performance of the Executive Management on a continuous basis.

In 2016, the Board of Directors held 15 meetings and conference calls.

**Competencies of the Board of Directors**
GN's Board of Directors strives to recruit board members with a diversified range of mutually complementary competencies. When the Board of Directors proposes new board members, a CV, as well as a thorough description of the candidate's

### GN Store Nord's framework for corporate governance

GN's structure is built to support its two main businesses focusing on the hearing aid and headset segments. The CFO of GN Store Nord, the CEO of GN Hearing and the CEO of GN Audio constitute the group's Executive Management. The board members of GN Store Nord are elected at GN's Annual General Meeting.

Shareholders

Board of Directors

Executive Management

GN Hearing | GN Audio

qualifications, will be available to the shareholders. GN is a global company and to successfully develop and maintain this position in the marketplace, GN is dependent upon global expertise and experience at the board level. The Board of Directors is a diversified group in terms of global experience, functional competencies and industry background, which ensures that it can fulfill its obligations. Members possess expertise within medtech, innovation, product development, online marketing and commercialization, as well as thorough understanding of financial and human resource matters and in-depth knowledge of GN's business.

The composition of the board is a mix of board members with executive positions and professional board members of both genders, as well as Danish and international profiles. This composition is deemed to provide a good balance between knowledge, competencies, experience and availability for a substantial workload.

At the end of 2016, the Board of Directors carried out its annual self-evaluation. This encompassed the achievements of the board as well as those of the chairman and the individual board members. The evaluation is carried out in a systematic way and is based on well-defined criteria.

The key area of continued focus for the Board of Directors' self-evaluation is the identification of necessary updates of the organizational development, the recruiting, training and education of staff in line with the company's new strategy.

**Diversity and talent management**

The Board of Directors believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies.

In 2016, the Board of Directors reached its goal to see two women elected for the board by the end of 2017. As communicated in last year's annual report, the Board of Directors aims to have three female board members by the end of 2020.

Currently, women fill over 16% of the company's senior management positions. GN had aimed for 25% in 2017. It is still management's firm goal to reach this target during the implementation of the 2017 - 2019 strategy, and GN will continue to strengthen efforts to build a pipeline of future female candidates.

To achieve this goal, we ensure that diversity is an integral part of GN's yearly talent review and succession planning process, of talent development practices, of recruitment procedures, of leadership development programs, and of mentor programs. Also, recently the wording and visual identity in recruitment activities on social media and other channels has been changed to better attract female candidates.

**Remuneration**

GN pursues a policy of offering the Board of Directors and the Executive Management remuneration that is competitive with industry peers and other global companies to attract and retain competent professional leaders of the businesses and members of the Board of Directors. Remuneration of the Executive Management is based on a fixed base salary plus a target bonus of 50% of the base salary with a potential to underperform or outperform the target leading to an effective potential bonus range of 0 - 100% of the base salary.

The company does not make pension contributions for members of the Executive Management, and the Executive Management has severance and change-of-control agreements in line with Danish market practice. The company has a fixed termination notice of 12 months if given by the company and six months if given by a member of the Executive Management.

Members of the Board of Directors receive fixed remuneration. They are not awarded share options, nor do they participate in other incentive programs. Board members, Executive Management and senior management are encouraged to buy and own shares in GN.

## Board committees

**Chairmanship**

The chairman and the vice chairman form the chairmanship of the board. The chairmanship prepares and organizes the work of the Board of Directors with a view to ensure that the board performs its tasks, duties and responsibilities in an efficient and responsible manner. The chairmanship also performs preparatory tasks for and advise the board in relation to inter alia: business strategy, implementation of strategy, business development, budget and projects, and performs in-depth business reviews of selected areas.

**Audit Committee**

According to its charter, the Audit Committee, among other things, assists the Board of Directors in relation to internal accounting and financial control systems, the integrity of the company's financial reports and engagements with external auditors. The audit committee also carries out ongoing assessments of the company's financial and business risks.

In 2016, the committee initiated a reevaluation of GN's internal controls framework which, among other things, build on increased education and financial reporting process tracking. In addition, the committee reviewed the whistleblower reporting system, main accounting principles, tax strategy and compliance and key risks (including identified supplier risks) etc.

In 2016, the Audit Committee held five meetings.

**Remuneration Committee**
According to its charter, the Remuneration Committee assists the Board of Directors in matters and decisions concerning remuneration of the Executive Management and senior employees and in ensuring that the general remuneration policies reflect an appropriate balance. Resolutions on remuneration recommended by the remuneration committee and adopted by the Board of Directors are in line with the guidelines for incentive pay, as approved by the Annual General Meeting and by the board.

The 2016 remuneration policy for the Executive Management is based on the remuneration guidelines and takes into account the corporate governance recommendations of Nasdaq Copenhagen and the requirements of the Danish Companies Act. In 2016, the Remuneration Committee supervised and reviewed the remuneration policy, salary, bonus, long-term incentive process and results. It also reviewed warrant grants, talent development and succession planning process and results. Moreover, a set of new GN company values and leadership principles were revised and approved by the board.

In 2016, the Remuneration Committee held seven meetings.

**Strategy Committee**
As an innovation driven company it is vital for GN to maintain and further enhance the technological core capabilities of the company of today, and even more importantly of tomorrow. Investments in a number of exploratory research projects aim at discovering potential future business opportunities leveraging core knowledge and competencies of GN, but outside GN Hearing's and GN Audio's immediate area of operation.

In 2016, the Strategy Committee oversaw a series of existing projects as well as new projects to explore technological innovations within the broader technology space.

In 2016, the Strategy Committee held eight meetings.

**Nomination Committee**
According to its charter, the nomination committee advises and makes recommendations to the Board of Directors in relation to the skills that the Board of Directors and the Executive Management must have to best perform their tasks.

In 2016, primary activities included a review of the general competencies necessary to be represented on the board. Based on this analysis and a review of the competency profiles of the individual board members, the committee concluded that all necessary competencies are represented in the current composition of the board. The structure, size and diversity of the board was also reviewed and found to meet all governance requirements as well as the requirements of GN. The committee also reviewed the latest developments in good corporate governance and performed succession planning for the board.

In 2016, the Nomination Committee held three meetings.

**Internal audit function**
In accordance with its charter, the Audit Committee annually considers the need for an internal audit function. Based on the recommendations of the Audit Committee, the Board of Directors determines whether the internal control systems are adequate.

During 2016, GN's financial control department continued the strengthening of its internal procedures for controller visits, including initiating wave one of the financial reporting tracking, which further supports the financial compliance and controls environment.

The Board of Directors' assessment, which is based on the company's size and the organization of the finance department, is that there is no need to establish an internal audit function at this time.

## Compliance

**Business ethics**
GN's commitment to business ethics and compliance with international regulation and internal policies is anchored in our ethics guide, our code of conduct and other internal guidelines. These outline the fundamental requirements for how GN operates and describe the responsibilities and ethical standards expected of all employees and relevant business partners.

To ensure and document employees' familiarity with the code of ethics and key policies at all times, relevant employees electronically sign off on their compliance within specific areas and take GN's e-learning courses within anti-corruption and competition compliance on a regular basis. This is supplemented with face-to-face compliance training for selected groups of employees.

**Whistleblower system**
GN's whistleblower hotline, Alertline, is available in 26 countries and 19 languages and is independently managed by a third party. The hotline can be used by employees as well as external parties to report a concern or perceived misconduct via the internet (at gnstorenord.alertline.eu) or via one of the local Alertline phone numbers. The system is an important tool to ensure that allegations of illegal or unethical conduct can be reported in a confidential and easy way. It also ensures that concerns or issues can be immediately addressed. All complaints are treated with confidentiality, and GN will not discharge, demote, suspend, threaten, harass or in any other way discriminate against an employee due to any lawful action(s) taken by the employee with respect to good faith

reporting of complaints or participation in a related investigation.

In 2016, GN received six reports within the scope of issues which may be reported through the hotline. The allegations were primarily leak of confidential information, conflict of interest and corrupt practices. All relevant cases have been investigated, and appropriate remediating as well as disciplinary actions were taken where relevant.

## Shareholders

GN aims for transparency and active ownership towards shareholders through an open and active dialog by ongoing communication with our shareholders at the Annual General Meeting and through investor presentations, newsletters, conference calls, the company website, webcasts, interim reports, the annual report, company announcements and media outreach activities.

GN services national, as well as international investors, and ensures a continuous dialog with shareholders, whether existing or potential, as well as equity analysts. On the company's website, www.gn.com, detailed material on the interests of the shareholders can be found. GN's shares are 100% free float, and shareholders have the ultimate authority over the company and exercise their right to make decisions at the Annual General Meeting where they also approve the annual report and elect board members and the independent auditor. For more information, please see the shareholder section on pages 33 - 34.

**Notices for the Annual General Meeting**
GN sends notices to convene Annual General Meetings by email. Thus, we encourage all registered shareholders to sign up at the investor portal with their email addresses and check the box labeled "email" in the field "Notice to convene Annual General Meeting". Shareholders will then receive the notice by email in the future.

# Board of Directors




| | **Per Wold-Olsen**<br>(Chairman) | **William E. Hoover, Jr.**<br>(Deputy chairman) | **Wolfgang Reim** | **Carsten Krogsgaard Thomsen** |
|---|---|---|---|---|
| | MBA. Formerly president with Merck & Co., Inc., Inter-continental Division, USA. Chairman since 2008. | MBA. Formerly with McKinsey & Company for 30 years. Deputy chairman since 2008. | Ph.D. in physics. Professional board member and self-employed consultant within the medical industry. | M.Sc. (Economics). CFO, NNIT A/S. |
| Board positions | Chairman of the boards of GN Audio A/S and GN Hearing A/S. Chairman of the board of Medicines for Malaria Venture and member of the boards of Gilead Sciences Inc. and Novo A/S. | Chairman of the board of ReD Associates and the GN Store Nord Foundation. Deputy chairman of the boards of GN Audio A/S and GN Hearing A/S. Member of the boards of Danfoss A/S, Lego Foundation, Neopost SA and Sanistål A/S. | Chairman of the board of Ondal Medical Systems GmbH. Member of the boards of Elekta A/S, GN Audio A/S and GN Hearing A/S and MedLumics S.L | Member of the boards of GN Audio A/S and GN Hearing A/S |
| Special competencies | Extensive global leadership expertise and knowledge of the healthcare industry. Brings a unique set of capa-bilities and values to the board of GN Store Nord within marketing and product development as well as com-mercialization of innovation. Also possesses in-depth knowledge of the US market as well as emerging markets. | In-depth knowledge from working with the largest in-dustrial and high-tech com-panies in the Nordic region within strategy, organization and M&A. Experienced with supply chain/operations and has practical experience in helping Nordic multinationals rapidly scale up in emerging markets, especially in China and India. | Global leadership experience from the healthcare industry and special knowledge in the areas of business process reengineering, innovation management, global sourcing and supply chain management. Contributes to the board with extensive M&A understanding. | Extensive expertise within finance, accounting, auditing, risk management, IT, M&A, post-merger integration and initial public offerings (IPO) as well as bond and hybrid capital financing from executive positions in both the public and private sector. |
| Board member since | 2008 | 2007 | 2008 | 2008 |
| Term | 2015/2016 | 2015/2016 | 2015/2016 | 2015/2016 |
| Considered independent | Yes | Yes | Yes | Yes |
| Nationality | Norwegian | American | German | Danish |
| Year of birth | 1947 | 1949 | 1956 | 1957 |
| No. of GN shares | 224,884 | 156,500 | 51,000 | 31,964 |
| Total remuneration 2016 (DKK) | 1,850,000 | 1,225,000 | 900,000 | 750,000 |
| Chairmanship | ● | ● | | |
| Audit Committee | | | ● | C |
| Nomination Committee | C | ● | | |
| Remuneration Committee | C | ● | | |
| Strategy Committee | ● | ● | C | |
| GN Hearing A/S board | C | DC | ● | ● |
| GN Audio A/S board | C | DC | ● | ● |

# Employee elected members





| **Hélène Barnekow** | **Ronica Wang** | **Leo Larsen** | **Morten Andersen** | **Nikolai Bisgaard** |
|---|---|---|---|---|
| M.Sc. (International Business). CEO, Telia Sweden. | MBA (Business Administration), B.A.Sc. (Industrial Engineering). Co-founder & global managing director InnoGrowth Group Ltd. | M.Sc. (Electrical Engineering) and a diploma in business administration and international trade. Senior Director, Audio Research, GN Audio. | B.Sc. (Mechanical Engineering). VP, Component Manufacturing in Operations, GN Hearing. | M.Sc. (Electrical Engineering). VP, External Relations, GN Hearing. |
| Member of the boards of GN Audio A/S and GN Hearing A/S. | Member of the boards of GN Audio A/S and GN Hearing A/S. Member of the boards in Active Kidz Shanghai and Pandora A/S | | | |
| Unique capabilities within general commercial management and marketing, including go-to-market, branding, communications, product management and channel management from the mobile communications and IT sector. | In-depth experience in building global brands, business transformation, as well as knowledge of consumer B2C and professional B2B2C marketing and distribution channels and e-commerce platforms in Asia, including digital marketing and social media from among others the FMCG, consumer health, and retail industries. | | | |
| 2013 | 2015 | 2007 | 2011 | 2006 |
| 2015/2016 | 2015/2016 | 2014/2018 | 2014/2018 | 2014/2018 |
| Yes | No | | | |
| Swedish | Hong Kong | Danish | Danish | Danish |
| 1964 | 1962 | 1959 | 1963 | 1951 |
| 8,900 | 4,850 | 1,137 | 1,230 | 2,431 |
| 600,000 | 600,000 | 250,000 | 250,000 | 250,000 |
| | | | | |
| | ● | | | |
| | | | | |
| ● | | | | |
| | | | | |
| ● | ● | | | |
| ● | ● | | | |

Please visit www.gn.com for more elaborate descriptions of the board members' competencies and management duties.

C Chairman

DC Deputy chairman

● Board member

# Executive Management

| |  |  |  |
|---|---|---|---|
| | **Anders Hedegaard** | **Marcus Desimoni** | **René Svendsen-Tune** |
| | President & CEO, GN Store Nord & GN Hearing | CFO, GN Store Nord & GN Hearing | President & CEO, GN Store Nord & GN Audio |
| Member of the Executive Management since | 2014 | 2016 | 2015 |
| Year of birth | 1960 | 1968 | 1955 |
| No. of GN shares | 10,400 | 5,000 | 73,000 |
| Board positions | - | - | Deputy chairman of the board of NKT Holding A/S |

# Additional financial information 2016

## Additional financial information

# Q4 financial highlights

## GN Hearing

**Revenue**
In Q4 2016, GN Hearing delivered 10% revenue growth. Organic growth was 1%. The foreign exchange development contributed 3% and M&A contribution was 6%. The revenue in Q4 2016 reached DKK 1,389 million, compared to DKK 1,267 million in Q4 2015.

The organic growth comes on top of a challenging comparison period – as GN Hearing had strong organic growth of 10% in Q4 2015 – as well as the product change in Costco from the private label – Kirkland Signature – to the branded label – ReSound Cala. GN Hearing continues to benefit from the strongest and broadest hearing aid family in the industry with ReSound LiNX$^2$ continuing to deliver strong growth across markets.

Geographically, the Rest of World region was the strongest growth contributor in Q4 2016. Despite challenging market conditions in the largest market, Japan, GN Hearing managed to deliver strong organic growth in the region, primarily driven by China. In North America, product changes in Costco had negative impact on growth in the second half of the year, but the uptake of ReSound Cala has, as expected, been strong. Veterans Affairs (VA) continues to contribute to growth. In Europe, the revenue was in line with the very strong performance in Q4 2015, where organic growth exceeded 20%.

**Earnings and other financial highlights**
GN Hearing's gross profit increased by 14% to DKK 994 million in Q4 2016. The gross margin reached 71.6%, versus 68.5% in Q4 2015. The positive development is driven, among others, by strong business execution and the acquisition of Audigy Group.

EBITA in Q4 2016 for GN Hearing was DKK 361 million, which includes transaction-related costs of DKK 7 million related to the divestment of Otometrics. Before transaction-related costs, the EBITA was DKK 368 million, versus DKK 307 million in Q4 2015. The reported EBITA margin in Q4 2016 reached 26.0%, versus 24.2% in Q4 2015. The strong earnings growth is driven by the positive revenue development and solid control of cost development as well as a positive impact due to foreign exchange rate developments.

In Q4 2016, free cash flow excl. M&A reached DKK 107 million equal to a cash conversion of 30%. In Q4 2015, free cash flow excl. M&A was DKK 171 million. The net cash flow from financial support arrangements impacted free cash flow negatively by DKK (30) million. GN Hearing estimates that the market has grown 2 - 3% in value in Q4 2016, with a slightly negative ASP development.

## GN Audio

**Revenue**
In Q4 2016, GN Audio delivered 11% revenue growth. Organic growth was 6%. The foreign exchange development contributed 1% and M&A contribution was 5%. The revenue in Q4 2016 was DKK 1,118 million compared to DKK 1,005 million in Q4 2015.

In Q4 2016, GN Audio's CC&O business delivered organic growth of 21%. The market-leading organic growth reflects GN Audio's ability to seize current market opportunities with its world-leading product portfolio, reallocate resources and execute on its Commercial Excellence initiatives. Geographically, the organic growth in the CC&O division for the quarter was based on strong development in all markets.

The organic growth in the Mobile division was (23)% in Q4 2016. The development, which did not live up to expectations set at the start of the year, reflects a strongly declining Bluetooth mono headset market, as well as a reallocation during the year of internal resources towards GN Audio's market-leading CC&O business.

**Earnings and other financial highlights**
In Q4 2016, GN Audio's gross profit increased by 15% to DKK 596 million. This translated into a gross margin of 53.3%, which was 1.8 percentage points higher than Q4 2015. A favorable divisional mix drove the solid development as CC&O continued the solid growth.

In Q4 2016, GN Audio's EBITA reached DKK 253 million equivalent to an EBITA margin of 22.6%. This is an increase of 20% versus Q4 2015. The margin improvement reflects gross margin improvement as well as operational leverage.

GN Audio's free cash flow excl. M&A was DKK 206 million in Q4 2016, which is more than 200% higher than the same period in the previous year. The cash conversion in Q4 2016 increased to 81%, versus 32% in Q4 2015. The improvement reflects GN Audio's continued focus on cash generation.

# Quarterly financial highlights

| DKK million | Q4 2016 (unaud.) | Q4 2015 (unaud.) | Full year 2016 (aud.) | Full year 2015 (aud.) |
|---|---|---|---|---|
| **GN Hearing (excl. GN Otometrics)** | | | | |
| **Continuing operations** | | | | |
| Revenue | 1,389 | 1,267 | 5,156 | 4,526 |
| Organic growth | 1% | 10% | 6% | 9% |
| Gross profit margin | 71.6% | 68.4% | 69.0% | 67.4% |
| EBITA | 361 | 307 | 1,062 | 921 |
| EBITA margin | 26.0% | 24.2% | 20.6% | 20.3% |
| ROIC (EBITA/Average invested capital) | 17% | 16% | 17% | 16% |
| Free cash flow excl. company acquisitions and divestments | 107 | 171 | 704 | 456 |
| Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA) | 30% | 56% | 66% | 50% |
| **GN Audio** | | | | |
| Revenue | 1,118 | 1,005 | 3,495 | 3,229 |
| - CC&O | 843 | 645 | 2,593 | 2,148 |
| - Mobile | 275 | 360 | 902 | 1,081 |
| Organic growth | 6% | 3% | 7% | 2% |
| - CC&O | 21% | 8% | 18% | 6% |
| - Mobile | (23)% | (4)% | (16)% | (5)% |
| Gross profit margin | 53.3% | 51.5% | 52.7% | 52.6% |
| EBITA | 253 | 210 | 597 | 540 |
| EBITA margin | 22.6% | 20.9% | 17.1% | 16.7% |
| ROIC (EBITA/Average invested capital) | 41% | 47% | 41% | 47% |
| Free cash flow excl. company acquisitions and divestments | 206 | 68 | 523 | 271 |
| Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA) | 81% | 32% | 88% | 50% |
| **GN Store Nord** | | | | |
| **Continuing operations** | | | | |
| Revenue | 2,507 | 2,272 | 8,651 | 7,755 |
| Organic growth | 3% | 7% | 6% | 6% |
| Gross profit margin | 63.4% | 61.0% | 62.4% | 61.2% |
| EBITA | 593 | 489 | 1,583 | 1,383 |
| EBITA margin | 23.7% | 21.5% | 18.3% | 17.8% |
| Profit (loss) before tax | 545 | 431 | 1,395 | 1,016 |
| Effective tax rate | 20.6% | 26.0% | 22.2% | 26.5% |
| ROIC (EBITA/Average invested capital) | 20% | 20% | 20% | 20% |
| Earnings per share, basic (EPS) from continuing operations | 2.99 | 2.08 | 7.34 | 4.79 |
| Earnings per share, fully diluted (EPS diluted) from continuing operations | 2.98 | 2.07 | 7.32 | 4.77 |
| Free cash flow excl. company acquisitions and divestments | 363 | 263 | 1,179 | 607 |
| Cash conversion (free cash flow excl. company acquisitions and divestments/EBITA) | 61% | 54% | 74% | 44% |
| **Continuing and discontinued operations** | | | | |
| Equity ratio | 43.8% | 51.6% | 43.8% | 51.6% |
| Net interest-bearing debt | 3,377 | 2,212 | 3,377 | 2,212 |
| Net interest-bearing debt (period-end)/EBITDA | 1.9 | 1.4 | 1.9 | 1.4 |
| Dividend payout ratio | 0% | 0% | 17% | 20% |
| Share buybacks* | 493 | 279 | 1,272 | 1,162 |
| Outstanding shares, end of period (thousand) | 143,471 | 152,254 | 143,471 | 152,254 |
| Average number of outstanding shares, fully diluted (thousand) | 145,385 | 153,898 | 148,361 | 156,734 |
| Share price at the end of the period | 146 | 125 | 146 | 125 |
| Market capitalization | 20,990 | 19,032 | 20,990 | 19,032 |

ROIC and NIBD/EBITDA are calculated based on reported EBITA and EBITDA for the latest four quarters

* Incl. buybacks as part of share based incentive programs

# Quarterly reporting by segment

| DKK million | Q1 2015 (unaud.) | Q2 2015 (unaud.) | Q3 2015 (unaud.) | Q4 2015 (unaud.) | Q1 2016 (unaud.) | Q2 2016 (unaud.) | Q3 2016 (unaud.) | Q4 2016 (unaud.) | 2015 Total (aud.) | 2016 Total (aud.) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Income statement** | | | | | | | | | | |
| **Revenue** | | | | | | | | | | |
| GN Hearing | 1,042 | 1,108 | 1,109 | 1,267 | 1,218 | 1,265 | 1,284 | 1,389 | 4,526 | 5,156 |
| GN Audio | 694 | 764 | 766 | 1,005 | 720 | 824 | 833 | 1,118 | 3,229 | 3,495 |
| **Total** | **1,736** | **1,872** | **1,875** | **2,272** | **1,938** | **2,089** | **2,117** | **2,507** | **7,755** | **8,651** |
| **Organic growth** | | | | | | | | | | |
| GN Hearing | 10% | 8% | 7% | 10% | 11% | 10% | 5% | 1% | 9% | 6% |
| GN Audio | (3)% | (2)% | 11% | 3% | 4% | 9% | 9% | 6% | 2% | 7% |
| **Total** | **4%** | **3%** | **9%** | **7%** | **8%** | **9%** | **6%** | **3%** | **6%** | **6%** |
| **Gross profit** | | | | | | | | | | |
| GN Hearing | 700 | 757 | 728 | 867 | 818 | 840 | 906 | 994 | 3,052 | 3,558 |
| GN Audio | 374 | 411 | 394 | 518 | 371 | 435 | 441 | 596 | 1,697 | 1,843 |
| **Total** | **1,074** | **1,168** | **1,122** | **1,385** | **1,189** | **1,275** | **1,347** | **1,590** | **4,749** | **5,401** |
| **Gross profit margin** | | | | | | | | | | |
| GN Hearing | 67.2% | 68.3% | 65.6% | 68.4% | 67.2% | 66.4% | 70.6% | 71.6% | 67.4% | 69.0% |
| GN Audio | 53.9% | 53.8% | 51.4% | 51.5% | 51.5% | 52.8% | 52.9% | 53.3% | 52.6% | 52.7% |
| **Total** | **61.9%** | **62.4%** | **59.8%** | **61.0%** | **61.4%** | **61.0%** | **63.6%** | **63.4%** | **61.2%** | **62.4%** |
| **Expensed development costs** | | | | | | | | | | |
| GN Hearing | (100) | (117) | (112) | (99) | (116) | (118) | (117) | (103) | (428) | (454) |
| GN Audio | (44) | (52) | (55) | (58) | (50) | (68) | (55) | (44) | (209) | (217) |
| Other * | (2) | (2) | (4) | (6) | (3) | - | (1) | (2) | (14) | (6) |
| **Total** | **(146)** | **(171)** | **(171)** | **(163)** | **(169)** | **(186)** | **(173)** | **(149)** | **(651)** | **(677)** |
| **Selling and distribution costs and administrative expenses etc.** | | | | | | | | | | |
| GN Hearing | (416) | (440) | (386) | (461) | (477) | (483) | (552) | (530) | (1,703) | (2,042) |
| GN Audio | (220) | (252) | (226) | (250) | (231) | (252) | (247) | (299) | (948) | (1,029) |
| Other * | (17) | (12) | (13) | (22) | (15) | (18) | (18) | (19) | (64) | (70) |
| **Total** | **(653)** | **(704)** | **(625)** | **(733)** | **(723)** | **(753)** | **(817)** | **(848)** | **(2,715)** | **(3,141)** |
| **EBITA** | | | | | | | | | | |
| GN Hearing | 184 | 200 | 230 | 307 | 225 | 239 | 237 | 361 | 921 | 1,062 |
| GN Audio | 110 | 107 | 113 | 210 | 90 | 115 | 139 | 253 | 540 | 597 |
| Other * | (19) | (14) | (17) | (28) | (18) | (18) | (19) | (21) | (78) | (76) |
| **Total** | **275** | **293** | **326** | **489** | **297** | **336** | **357** | **593** | **1,383** | **1,583** |
| **EBITA margin** | | | | | | | | | | |
| GN Hearing | 17.7% | 18.1% | 20.7% | 24.2% | 18.5% | 18.9% | 18.5% | 26.0% | 20.3% | 20.6% |
| GN Audio | 15.9% | 14.0% | 14.8% | 20.9% | 12.5% | 14.0% | 16.7% | 22.6% | 16.7% | 17.1% |
| **Total** | **15.8%** | **15.7%** | **17.4%** | **21.5%** | **15.3%** | **16.1%** | **16.9%** | **23.7%** | **17.8%** | **18.3%** |
| **Depreciation and software amortization** | | | | | | | | | | |
| GN Hearing | (24) | (23) | (27) | (23) | (25) | (26) | (29) | (29) | (97) | (109) |
| GN Audio | (9) | (9) | (9) | (10) | (9) | (9) | (10) | (9) | (37) | (37) |
| Other * | (7) | (7) | (7) | (8) | (8) | (8) | (7) | (8) | (29) | (31) |
| **Total** | **(40)** | **(39)** | **(43)** | **(41)** | **(42)** | **(43)** | **(46)** | **(46)** | **(163)** | **(177)** |
| **EBITDA** | | | | | | | | | | |
| GN Hearing | 208 | 223 | 257 | 330 | 250 | 265 | 266 | 390 | 1,018 | 1,171 |
| GN Audio | 119 | 116 | 122 | 220 | 99 | 124 | 149 | 262 | 577 | 634 |
| Other * | (12) | (7) | (10) | (20) | (10) | (10) | (12) | (13) | (49) | (45) |
| **Total** | **315** | **332** | **369** | **530** | **339** | **379** | **403** | **639** | **1,546** | **1,760** |
| **EBITA** | **275** | **293** | **326** | **489** | **297** | **336** | **357** | **593** | **1,383** | **1,583** |
| Amortization of acquired intangible assets | (18) | (18) | (16) | (22) | (22) | (25) | (30) | (32) | (74) | (109) |
| Gain (loss) on divestment of operations etc. | - | (4) | - | (6) | (1) | (1) | - | (27) | (10) | (29) |
| Beltone Network non-recurring items | - | (150) | - | - | - | - | - | - | (150) | - |
| **Operating profit (loss)** | **257** | **121** | **310** | **461** | **274** | **310** | **327** | **534** | **1,149** | **1,445** |
| Share of profit (loss) in associates | - | - | - | 5 | - | - | - | 2 | 5 | 2 |
| Financial items, net | (24) | (33) | (46) | (35) | (5) | (7) | (49) | 9 | (138) | (52) |
| **Profit (loss) before tax** | **233** | **88** | **264** | **431** | **269** | **303** | **278** | **545** | **1,016** | **1,395** |
| Tax on profit (loss) | (63) | (24) | (70) | (112) | (66) | (75) | (56) | (112) | (269) | (309) |
| **Profit (loss)** | **170** | **64** | **194** | **319** | **203** | **228** | **222** | **433** | **747** | **1,086** |
| **Balance sheet Development projects** | | | | | | | | | | |
| GN Hearing | 735 | 733 | 737 | 751 | 754 | 759 | 769 | 798 | 961 | 798 |
| GN Audio | 180 | 198 | 211 | 223 | 233 | 238 | 251 | 267 | 223 | 267 |
| Other * | - | - | - | - | - | - | - | - | - | - |
| **Total** | **915** | **931** | **948** | **974** | **987** | **997** | **1,020** | **1,065** | **1,184** | **1,065** |
| **Inventories** | | | | | | | | | | |
| GN Hearing | 350 | 351 | 370 | 359 | 378 | 396 | 435 | 425 | 491 | 425 |
| GN Audio | 204 | 229 | 257 | 229 | 224 | 237 | 260 | 290 | 229 | 290 |
| **Total** | **554** | **580** | **627** | **588** | **602** | **633** | **695** | **715** | **720** | **715** |
| **Trade receivables** | | | | | | | | | | |
| GN Hearing | 1,160 | 1,146 | 1,180 | 1,214 | 1,219 | 1,207 | 1,142 | 1,177 | 1,345 | 1,177 |
| GN Audio | 699 | 752 | 706 | 909 | 690 | 758 | 814 | 1,005 | 909 | 1,005 |
| Other * | 1 | 1 | - | 1 | 1 | - | - | 1 | 1 | 1 |
| **Total** | **1,860** | **1,899** | **1,886** | **2,124** | **1,910** | **1,965** | **1,956** | **2,183** | **2,255** | **2,183** |
| **Net working capital** | | | | | | | | | | |
| GN Hearing | 940 | 836 | 906 | 755 | 943 | 834 | 739 | 726 | 942 | 726 |
| GN Audio | 436 | 377 | 387 | 486 | 485 | 463 | 454 | 500 | 486 | 500 |
| Other * | (49) | (22) | (39) | (59) | (93) | (68) | (84) | (88) | (59) | (88) |
| **Total** | **1,327** | **1,191** | **1,254** | **1,182** | **1,335** | **1,229** | **1,109** | **1,138** | **1,369** | **1,138** |
| **Cash flow Free cash flow excl. company acquisitions and divestments** | | | | | | | | | | |
| GN Hearing | (61) | 184 | 162 | 171 | 47 | 279 | 271 | 107 | 456 | 704 |
| GN Audio | 11 | 121 | 71 | 68 | 29 | 160 | 128 | 206 | 271 | 523 |
| Other * | (84) | (19) | (41) | 24 | (49) | (25) | (24) | 50 | (120) | (48) |
| **Total** | **(134)** | **286** | **192** | **263** | **27** | **414** | **375** | **363** | **607** | **1,179** |
| **Acquisitions and divestments of companies** | **(12)** | **(7)** | **(4)** | **(15)** | **(33)** | **(54)** | **(606)** | **(187)** | **(38)** | **(880)** |
| **Free cash flow** | **(146)** | **279** | **188** | **248** | **(6)** | **360** | **(231)** | **176** | **569** | **299** |

* "Other" comprises Group Functions, GN Ejendomme and eliminations. All numbers excluding Otometrics

# Q4 segment disclosures

## Income statement

| (DKK million) | GN Hearing Q4 2016 (unaud.) | GN Hearing Q4 2015 (unaud.) | GN Audio Q4 2016 (unaud.) | GN Audio Q4 2015 (unaud.) | Other* Q4 2016 (unaud.) | Other* Q4 2015 (unaud.) | Consolidated total Q4 2016 (unaud.) | Consolidated total Q4 2015 (unaud.) |
|---|---|---|---|---|---|---|---|---|
| Revenue | 1,389 | 1,267 | 1,118 | 1,005 | - | - | 2,507 | 2,272 |
| Production costs | (395) | (400) | (522) | (487) | - | - | (917) | (887) |
| **Gross profit** | **994** | **867** | **596** | **518** | **-** | **-** | **1,590** | **1,385** |
| Expensed development costs** | (103) | (99) | (44) | (58) | (2) | (6) | (149) | (163) |
| Selling and distribution costs** | (476) | (403) | (239) | (211) | - | - | (715) | (614) |
| Management and administrative expenses | (54) | (57) | (56) | (40) | (19) | (22) | (129) | (119) |
| Other operating income and costs, net | - | (1) | (4) | 1 | - | - | (4) | - |
| **EBITA** | **361** | **307** | **253** | **210** | **(21)** | **(28)** | **593** | **489** |
| Amortization of acquired intangible assets | (29) | (19) | (3) | (3) | - | - | (32) | (22) |
| Gain (loss) on divestment of operations etc. | (27) | (6) | - | - | - | - | (27) | (6) |
| **Operating profit (loss)** | **305** | **282** | **250** | **207** | **(21)** | **(28)** | **534** | **461** |
| Share of profit(loss) in associates | 2 | 5 | - | - | - | - | 2 | 5 |
| Financial items | 22 | (15) | (7) | (4) | (6) | (16) | 9 | (35) |
| **Profit (loss) before tax** | **329** | **272** | **243** | **203** | **(27)** | **(44)** | **545** | **431** |
| Tax on profit (loss) | (76) | (86) | (47) | (39) | 11 | 13 | (112) | (112) |
| **Profit (loss)** | **253** | **186** | **196** | **164** | **(16)** | **(31)** | **433** | **319** |

## Discontinued operations

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Profit (loss) for the period from discontinued operations | (59) | 27 | - | - | - | - | (59) | 27 |
| **Profit (loss) for the period** | **194** | **213** | **196** | **164** | **(16)** | **(31)** | **374** | **346** |

## Cash flow statement

| (DKK million) | GN Hearing Q4 2016 (unaud.) | GN Hearing Q4 2015 (unaud.) | GN Audio Q4 2016 (unaud.) | GN Audio Q4 2015 (unaud.) | Other* Q4 2016 (unaud.) | Other* Q4 2015 (unaud.) | Consolidated total Q4 2016 (unaud.) | Consolidated total Q4 2015 (unaud.) |
|---|---|---|---|---|---|---|---|---|
| **Operating activities before changes in working capital** | **387** | **432** | **269** | **263** | **(13)** | **(26)** | **643** | **669** |
| Cash flow from changes in working capital | (22) | 106 | 19 | (88) | 22 | 15 | 19 | 33 |
| **Cash flow from operating activities excluding financial items and tax** | **365** | **538** | **288** | **175** | **9** | **(11)** | **662** | **702** |
| Cash flow from investing activities: | | | | | | | | |
| Development projects | (83) | (67) | (34) | (36) | - | - | (117) | (103) |
| Other | (120) | (85) | (186) | (17) | 10 | (6) | (296) | (108) |
| **Cash flow from operating and investing activities before financial items and tax** | **162** | **386** | **68** | **122** | **19** | **(17)** | **249** | **491** |
| Tax and financial items | (76) | (156) | (45) | (54) | 31 | 41 | (90) | (169) |
| **Cash flow from operating and investing activities (free cash flow)** | **86** | **230** | **23** | **68** | **50** | **24** | **159** | **322** |
| **Free cash flow excl. company acquisitions and divestments** | **90** | **248** | **206** | **68** | **50** | **24** | **346** | **340** |

* "Other" comprises Group Functions, GN Ejendomme and eliminations

**Does not include amortization of acquired intangible assets, cf. the definition of EBITA

## Additional information

| (DKK million) | GN Hearing Q4 2016 (unaud.) | GN Hearing Q4 2015 (unaud.) | GN Audio Q4 2016 (unaud.) | GN Audio Q4 2015 (unaud.) | Other* Q4 2016 (unaud.) | Other* Q4 2015 (unaud.) | Consolidated total Q4 2016 (unaud.) | Consolidated total Q4 2015 (unaud.) |
|---|---|---|---|---|---|---|---|---|
| Revenue distributed geographically | | | | | | | | |
| Europe | 28% | 30% | 46% | 49% | 0% | 0% | 36% | 38% |
| North America | 52% | 51% | 40% | 35% | 0% | 0% | 46% | 44% |
| Rest of world | 20% | 19% | 14% | 16% | 0% | 0% | 18% | 18% |
| Incurred development costs | (137) | (108) | (56) | (69) | (2) | (6) | (195) | (183) |
| Capitalized development costs | 83 | 67 | 34 | 36 | - | - | 117 | 103 |
| Amortization and depreciation of development costs** | (49) | (58) | (22) | (25) | - | - | (71) | (83) |
| **Expensed development costs** | **(103)** | **(99)** | **(44)** | **(58)** | **(2)** | **(6)** | **(149)** | **(163)** |
| EBITDA | 390 | 330 | 262 | 220 | (13) | (20) | 639 | 530 |
| Depreciation and software amortization | (29) | (23) | (9) | (10) | (8) | (8) | (46) | (41) |
| **EBITA** | **361** | **307** | **253** | **210** | **(21)** | **(28)** | **593** | **489** |
| EBITA margin | 26.0% | 24.2% | 22.6% | 20.9% | N/A | N/A | 23.7% | 21.5% |
| Number of employees, end of period | ~4,275 | ~3,975 | ~1,050 | ~1,000 | ~75 | ~75 | ~5,400 | ~5,050 |

* "Other" comprises Group Functions, GN Ejendomme and eliminations

**Does not include amortization of acquired intangible assets, cf. the definition of EBITA

***Net amount

**** Includes Net working capital (Inventories, Trade receivables, Other receivables, Trade payables and Other current liabilities), Goodwill, Development projects, Other intangible assets, Property, plant and equipment, Loans to dispensers and ownership interests and Provisions.

# Content
# Financial highlights 2016

## Consolidated financial statements



## Notes to the consolidated financial statements

### Section 1 Basis of preparation

Overview of the financial accounting policies in general and an introduction to Management's key accounting estimates and judgements.



### Section 2 Results of the year

Insights into the results for the year, including operating segments, employee costs and taxes.



### Section 3 Operating assets and liabilities

Insights into the assets that form the basis for the activities in GN Store Nord, and the related liabilities. Most of these are included in invested capital and some in net working capital.



### Section 4 Capital structure and financing items

Insight into GN Store Nord's capital structure and financial items as well as financial risks.



### Section 5 Other disclosures

Statutory notes and other disclosures.

## Consolidated income statement

| DKK million | Note | 2016 | 2015 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2.2 | 8,651 | 7,755 |
| Production costs | 2.3, 3.3, 3.6 | (3,250) | (3,006) |
| **Gross profit** | | **5,401** | **4,749** |
| Development costs | 2.3, 3.3 | (677) | (651) |
| Selling and distribution costs | 2.3, 3.3 | (2,564) | (2,261) |
| Management and administrative expenses | 2.3, 3.3, 5.10 | (579) | (462) |
| Other operating income and costs, net | | 2 | 8 |
| **EBITA*)** | | **1,583** | **1,383** |
| Amortization of acquired intangible assets | 2.5, 3.3 | (109) | (74) |
| Gain (loss) on divestment of operations etc. | 5.1 | (29) | (10) |
| Beltone Network non-recurring items | 1.4 | - | (150) |
| **Operating profit (loss)** | | **1,445** | **1,149** |
| Share of profit (loss) in associates | 5.7 | 2 | 5 |
| Financial income | 4.3 | 184 | 97 |
| Financial expenses | 4.3 | (236) | (235) |
| **Profit (loss) before tax** | | **1,395** | **1,016** |
| Tax on profit (loss) | 2.4 | (309) | (269) |
| **Profit (loss) for the year from continuing operations** | | **1,086** | **747** |
| **Discontinued operations** | | | |
| Profit (loss) for the year from discontinued operations | 5.2 | (53) | 58 |
| **Profit (loss) for the year** | | **1,033** | **805** |
| **Earnings per share (EPS)** | 4.1 | | |
| Earnings per share (EPS) | | 6.98 | 5.16 |
| Earnings per share, fully diluted (EPS diluted) | | 6.96 | 5.14 |
| **Earnings per share (EPS) from continuing operations** | | | |
| Earnings per share (EPS) from continuing operations | | 7.34 | 4.79 |
| Earnings per share from continuing operations, fully diluted (EPS diluted) | | 7.32 | 4.77 |

*) Excluding Beltone Network non-recurring items, Gain (loss) on divestment of operations etc. and Amortization of acquired intangible assets but including amortization of own development projects and software.

## Consolidated statement of comprehensive income

| DKK million | Note | 2016 | 2015 |
|---|---|---|---|
| **Profit (loss) for the year** | | **1,033** | **805** |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial gains (losses) | | (5) | 14 |
| Tax relating to this item of other comprehensive income | 2.4 | 1 | (6) |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Adjustment of cash flow hedges | 4.2 | (42) | 30 |
| Foreign exchange adjustments, etc. | | 198 | 462 |
| Tax relating to these items of other comprehensive income | 2.4 | (3) | (10) |
| **Other comprehensive income for the year, net of tax** | | **149** | **490** |
| **Total comprehensive income for the year** | | **1,182** | **1,295** |

## Consolidated balance sheet at December 31

| DKK million | Note | 2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 3.1 | 6,521 | 5,469 |
| Property, plant and equipment | 3.2 | 508 | 534 |
| Investments in associates | 5.7 | 27 | 25 |
| Deferred tax assets | 2.4 | 443 | 507 |
| Other non-current assets | 3.4, 4.2 | 1,094 | 1,239 |
| **Total non-current assets** | | **8,593** | **7,774** |
| Inventories | 3.6 | 715 | 720 |
| Trade receivables | 3.7, 4.2 | 2,183 | 2,255 |
| Tax receivables | 2.4 | 14 | 63 |
| Other receivables | 4.2 | 231 | 232 |
| Cash and cash equivalents | | 178 | 132 |
| **Total current assets** | | **3,321** | **3,402** |
| Assets held for sale | 5.2 | 921 | - |
| **Total assets** | | **12,835** | **11,176** |
| **Equity and Liabilities** | | | |
| Share capital | | 619 | 649 |
| Other reserves | | (2,097) | (2,113) |
| Proposed dividends for the year | | 178 | 161 |
| Retained earnings | | 6,920 | 7,067 |
| **Total equity** | | **5,620** | **5,764** |
| Bank loans | 4.2 | 3,527 | 2,297 |
| Pension obligations | 5.5 | 66 | 64 |
| Provisions | 3.5 | 248 | 59 |
| Deferred tax liabilities | 2.4 | 430 | 496 |
| Other non-current liabilities | 4.2 | 325 | 301 |
| **Total non-current liabilities** | | **4,596** | **3,217** |
| Bank loans | 4.2 | 55 | 47 |
| Trade payables | 4.2 | 642 | 731 |
| Tax payables | 2.4 | 72 | 28 |
| Provisions | 3.5 | 289 | 282 |
| Other payables | 3.8 | 1,350 | 1,107 |
| **Total current liabilities** | | **2,408** | **2,195** |
| Liabilities directly associated with assets held for sale | 5.2 | 211 | - |
| **Total equity and liabilities** | | **12,835** | **11,176** |

## Consolidated statement of cash flow

| DKK million | Note | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit (loss) from continuing operations | | 1,445 | 1,149 |
| Operating profit (loss) from discontinued operations | | (55) | 71 |
| Operating profit (loss) | | 1,390 | 1,220 |
| Depreciation, amortization and impairment | | 666 | 599 |
| Other non-cash adjustments | 5.8 | 1 | 127 |
| **Cash flow from operating activities before changes in working capital** | | **2,057** | **1,946** |
| Change in inventories | | (92) | (83) |
| Change in receivables | | 12 | (260) |
| Change in trade payables and other payables | | 94 | 192 |
| **Total changes in working capital** | | **14** | **(151)** |
| **Cash flow from operating activities before financial items and tax** | | **2,071** | **1,795** |
| Interest and dividends, etc., received | | 32 | 48 |
| Interest etc. paid | | (115) | (119) |
| Tax paid, net | | (185) | (274) |
| **Cash flow from operating activities** | | **1,803** | **1,450** |
| **Investing activities** | | | |
| Investments in intangible assets, excluding development projects | | (127) | (161) |
| Development projects | | (481) | (460) |
| Investments in property, plant and equipment | | (115) | (179) |
| Investments in other non-current assets | | (201) | (74) |
| Disposal of intangible assets | | 14 | 2 |
| Disposal of property, plant and equipment | | 11 | 10 |
| Disposal/repayment of other non-current assets | | 214 | 155 |
| Acquisition of companies/operations | 5.1 | (880) | (47) |
| **Cash flow from investing activities** | | **(1,565)** | **(754)** |
| **Cash flow from operating and investing activities (free cash flow)** | | **238** | **696** |
| **Financing activities** | | | |
| Increase of long-term loans | | 1,228 | 624 |
| Increase/(decrease) of short-term loans | | 11 | (23) |
| Paid dividends | | (149) | (142) |
| Share-based payment (exercised) | | 67 | 65 |
| Purchase/sale of treasury shares | | (1,272) | (1,162) |
| Other adjustments | | (50) | (44) |
| **Cash flow from financing activities** | | **(165)** | **(682)** |
| **Net cash flow** | | **73** | **14** |
| Cash and cash equivalents, beginning of period | | 132 | 114 |
| Adjustment foreign currency, cash and cash equivalents | | 2 | 4 |
| **Cash and cash equivalents, end of period** | 5.8 | **207** | **132** |

## Consolidated statement of equity

| DKK million | Share capital (shares of DKK 4 each) | Other reserves: Additional paid-in capital | Other reserves: Foreign exchange adjustments | Other reserves: Hedging reserve | Other reserves: Treasury shares | Proposed dividends for the year | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet total at December 31, 2014** | **672** | **540** | **(1,185)** | **(50)** | **(1,112)** | **151** | **6,651** | **5,667** |
| Profit (loss) for the period | - | - | - | - | - | - | 805 | 805 |
| Actuarial gains (losses) | - | - | - | - | - | - | 14 | 14 |
| Adjustment of cash flow hedges | - | - | - | 30 | - | - | - | 30 |
| Foreign exchange adjustments, etc. | - | - | 462 | - | - | - | - | 462 |
| Tax relating to other comprehensive income | - | - | (3) | (7) | - | - | (6) | (16) |
| Total comprehensive income for the year | - | - | 459 | 23 | - | - | 813 | 1,295 |
| Reduction of share capital | (23) | (476) | - | - | 784 | - | (285) | - |
| Share-based payment (granted) | - | - | - | - | - | - | 19 | 19 |
| Share-based payment (exercised) | - | (64) | - | - | 130 | - | (1) | 65 |
| Tax related to share-based incentive plans | - | - | - | - | - | - | 22 | 22 |
| Purchase/sale of treasury shares | - | - | - | - | (1,162) | - | - | (1,162) |
| Proposed dividends for the year* | - | - | - | - | - | 161 | (161) | - |
| Paid dividends | - | - | - | - | - | (142) | - | (142) |
| Dividends, treasury shares | - | - | - | - | - | (9) | 9 | - |
| **Balance sheet total at December 31, 2015** | **649** | **-** | **(726)** | **(27)** | **(1,360)** | **161** | **7,067** | **5,764** |
| Profit (loss) for the period | - | - | - | - | - | - | 1,033 | 1,033 |
| Actuarial gains (losses) | - | - | - | - | - | - | (5) | (5) |
| Adjustment of cash flow hedges | - | - | - | (42) | - | - | - | (42) |
| Foreign exchange adjustments, etc. | - | - | 198 | - | - | - | - | 198 |
| Tax relating to other comprehensive income | - | - | (12) | 9 | - | - | 1 | (2) |
| Total comprehensive income for the year | - | - | 186 | (33) | - | - | 1,029 | 1,182 |
| Reduction of share capital | (30) | - | - | - | 1,036 | - | (1,006) | - |
| Share-based payment (granted) | - | - | - | - | - | - | 22 | 22 |
| Share-based payment (exercised) | - | - | - | - | 99 | - | (32) | 67 |
| Tax related to share-based incentive plans | - | - | - | - | - | - | 6 | 6 |
| Purchase/sale of treasury shares | - | - | - | - | (1,272) | - | - | (1,272) |
| Proposed dividends for the year* | - | - | - | - | - | 178 | (178) | - |
| Paid dividends | - | - | - | - | - | (149) | - | (149) |
| Dividends, treasury shares | - | - | - | - | - | (12) | 12 | - |
| **Balance sheet total at December 31, 2016** | **619** | **-** | **(540)** | **(60)** | **(1,497)** | **178** | **6,920** | **5,620** |

*Equivalent to DKK 1,15 per share (2015: DKK 0,99 per share)

# Section 1
# Basis of preparation

In order to make the annual report reader friendly the notes are grouped in sections. Each note include the accounting policies and significant accounting estimates applicable to the relevant notes. The description of the accounting policies in the notes are part of the complete description of GN Store Nord's accounting policies. The notes are grouped in these five sections:

Section 1 Basis of preparation
Section 2 Results for the year
Section 3 Operating assets and liabilities
Section 4 Capital structure and financing items
Section 5 Other disclosures

Included in Section 1 are required disclosures and general accounting policies, including management's judgments and estimates under International Financial Reporting Standards (IFRS), relevant for the understanding of the basis of preparation of the consolidated financial statements of GN Store Nord A/S. Section 1.4 describes the line item Beltone Network non-recurring items.

New or revised EU endorsed accounting standards and interpretations are described in addition to how these changes are expected to impact the financial performance and reporting of the GN Store Nord Group.

## 1.1 General accounting policies

The annual report of GN Store Nord for 2016 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Danish disclosure requirements for annual reports of listed companies.

The annual report has been prepared in accordance with the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments at fair value.

**Adoption of new and revised accounting standards**
GN Store Nord has adopted all the relevant new and revised International Financial Reporting Standards and IFRIC Interpretations effective as of January 1, 2016. The new and revised Standards and Interpretations did not affect recognition and measurement materially nor did they result in any material changes to disclosures in the notes. Apart from these minor changes, the annual report is presented in accordance with the accounting policies applied in previous years' annual reports.

**Accounting standards not yet adopted**
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, or have not yet been adopted by the EU, and have not been applied in preparing this annual report. Those, which may be relevant to GN Store Nord, are the following:

- IFRS 16 Leases applies to periods beginning on or after January 1, 2019. The effects of the standard have not yet been analyzed in detail and the financial impact of the new standard will depend on the lease agreements in effect at the time of adoption. However, it is expected that EBITA will increase with the so-called implicit lease interest rate. This is due to lease payments from operating leases that will be replaced by depreciations included above EBITA and a calculated interest included in financial items. EBITDA is therefore also expected to increase with an amount equal to the operating lease payments.

  Net Interest Bearing Debt is expected to increase with the present value of recognized lease liabilities. Invested capital is expected to increase with the value of the lease assets measured initially as the present value of the recognized leasing liabilities. Return on invested capital is expected to be affected slightly negative as the return on the lease assets to be included in invested capital, in the form of an increase in EBITA with the implicit lease interest rate, are expected to be lower than GN Store Nord's ROIC. The ratio NIBD/EBITDA is expected to increase slightly as NIBD will increase more than EBITDA compared to the current ratio between NIBD and EBITDA.

- IFRS 9 Financial Instruments applies to annual periods beginning on or after January 1, 2018. IFRS 9 contains reviewed requirements for recognizing and measuring financial instruments, including handling of expected credit losses when calculating impairment of financial instruments as well as principles for accounting for hedging transactions. The preliminary assessment of how the standard will affect the recognition and measurement of financial instruments shows, that it will most likely have an effect on recognition and measurement of financial instruments such as ownership interests in unlisted enterprises and derivative financial instruments related to such. As sufficient and recent information to measure fair value is not always available for investments in unlisted enterprises the effect has not been quantified yet. Disclosure in the financial statements will change slightly as the classification of financial assets will be simplified to include only two categories: Financial assets measured at either amortized cost or fair value.

- IFRS 15 Revenue from Contracts with Customers applies to annual periods beginning on or after January 1, 2018. IFRS 15 establishes a comprehensive framework for determining whether, to what extent and at what point in time revenue is recognized. The preliminary assessment of how the standard will affect the recognition and measurement of revenue shows, that it will most likely only have a limited effect on the revenue recognition in GN Store Nord. GN Store Nord's existing accounting policy for revenue recognition is based on transfer of risk to the buyer whereas revenue recognition according to IFRS 15 will be based on transfer of control to the buyer. Based on reviews of selected contracts with customers this change is not expected to affect the timing of revenue recognition in GN Store Nord. The new standard will require additional disclosures regarding revenue recognition.

GN Store Nord expects to adopt the mentioned standards and interpretations as of the effective dates.

**Consolidated Financial Statements**

The consolidated financial statements relate to the parent company, GN Store Nord, and the enterprises in which GN Store Nord directly or indirectly holds more than 50% of the voting rights or where it, in some other way, has the power to govern the financial and operating policies of an enterprise. GN Store Nord and its subsidiaries are referred to as the Group. Group companies are listed on page 93. Enterprises that are not subsidiaries, but where GN Store Nord holds between 20% and 50% of the voting rights and over which it exercises significant influence, but where it does not have power to govern the financial and operating policies, are considered associates. When assessing whether GN Store Nord exercises control or significant influence, potential voting rights that are substantive and options on acquisition of additional ownership interests are taken into account.

The consolidated financial statements are prepared as a consolidation of the financial statements of the parent company and those of the individual subsidiaries, all of which are presented in accordance with the Group's accounting policies. Intra-group income and expenses, shareholdings, intra-group balances and dividends, and realized and unrealized gains and losses on intra-group transactions are eliminated. On consolidation, the carrying amount of shares held by the parent company in subsidiaries is set off against the subsidiaries' equity.

**Foreign Currency Translation**

***Functional Currency and Presentation Currency***

Financial statement items for each of the reporting enterprises in the Group are measured using the currency used in the primary financial environment in which the reporting enterprise operates. Transactions denominated in other currencies than the functional currency are considered transactions denominated in foreign currencies. The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency and presentation currency of the parent company.

***Translation of Transactions and Amounts***

On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognized in the income statement as financial income or financial expenses. Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognized in the latest annual report is recognized in the income statement as financial income or financial expenses.

***Translation of Subsidiaries***

On recognition in the consolidated financial statements of foreign entities with another functional currency than GN Store Nord's presentation currency, the income statements are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized in other comprehensive income.

Foreign exchange adjustment of balances with foreign entities that are considered part of the investment in the entity are recognized in other comprehensive income in the consolidated financial statements under a separate translation reserve.

**Cash Flow Statement**

The cash flow statement is presented using the indirect method based on the operating profit (loss). The cash flow statement shows the cash flow from operating, investing and financing activities for the year and the year's changes in cash and cash equivalents as well as the cash and cash equivalents at the beginning and end of the year. The cash flow effect of acquisitions and disposals of enterprises is shown separately in cash flows from investing activities. Cash flow from acquired enterprises is recognized in the cash flow statement from the acquisition date. Cash flow from disposed of enterprises is recognized up until the disposal date.

Cash flow from operating activities comprises cash flow from the year's operations adjusted for non-cash operating items and changes in working capital. Working capital comprises current assets excluding items stated as cash and cash equivalents and excluding tax receivable, as well as current liabilities excluding bank loans, tax payable and provisions.

Cash flow from investing activities comprises payments in connection with acquisitions and disposals of enterprises and activities, acquisitions and disposals of intangible assets, property, plant and equipment and other non-current assets and acquisitions and disposals of securities that are not included in cash and cash equivalents.

Cash flow from financing activities comprises changes in the size or composition of the share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less and are subject to an insignificant risk of changes in value.

## 1.2 Significant accounting estimates and judgments

The recognition of certain items of income and expenses and the determination of the carrying amount of certain assets and liabilities implies making accounting estimates and judgments. Significant accounting estimates and judgments comprise revenue recognition, computation of amortization, depreciation and impairment, useful lives and remaining useful lives of non-current assets. Furthermore, recognition of pension obligations and similar non-current obligations, provisions, contingent assets and liabilities as well as measurement of investment in associates requires significant accounting estimates and judgments.

The estimates used are based on assumptions, which by Management are deemed reliable, but by nature are associated with uncertainty. The assumptions may be incomplete or incorrect, and unexpected events or circumstances may arise. Accordingly, the Company is subject to risks and uncertainties that may lead to a situation where actual results differ from estimates.
A description of significant accounting estimates and judgments is included in the relevant notes:

| **Estimate/Judgment** | **Section** |
|---|---|
| Revenue recognition | 2.1 Segment disclosures |
| Measurement of deferred tax | 2.4 Tax |
| Recognition and measurement of goodwill and development projects | 3.1 Intangible assets |
| Loans to dispensers and ownership interests | 3.4 Other non-current assets |
| Measurement of provisions | 3.5 Provisions |
| Measurement of inventories | 3.6 Inventories |
| Measurement of trade receivables | 3.7 Trade receivables |
| Recognition of contingent assets and liabilities | 5.5 Contingent liabilities, other financial liabilities and contingent assets |

## 1.3 Non-IFRS measures

This Annual Report includes financial measures which are not defined by IFRS. These measures are included because they are used to analyze and manage the business and to provide GN Store Nord's management and stakeholders with useful information on the group's financial position, performance and development. Please refer to Key ratio definitions for a definition of the measures.

## 1.4 Beltone network non-recurring items

A separate line item, "Beltone Network non-recurring items", was included in the income statement in 2015. The line item includes losses in respect of prior years due to identified accounting fraud in the Beltone Distribution Network. The accounting fraud is not considered material to the years in which it relates (2012-2014) and was consequently included in the income statement for 2015.

# Section 2 Results of the year

## 2.1 Segment disclosures

**Income statement 2016**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| External revenue | 5,156 | 3,495 | - | - | 8,651 |
| Internal revenue | - | - | 59 | (59) | - |
| **Revenue** | **5,156** | **3,495** | **59** | **(59)** | **8,651** |
| Production costs | (1,598) | (1,652) | - | - | (3,250) |
| **Gross profit** | **3,558** | **1,843** | **59** | **(59)** | **5,401** |
| Expensed development costs | (454) | (217) | (6) | - | (677) |
| Selling and distribution costs | (1,706) | (858) | - | - | (2,564) |
| Management and administrative expenses | (341) | (168) | (129) | 59 | (579) |
| Other operating income and costs, net | 5 | (3) | - | - | 2 |
| **EBITA*)** | **1,062** | **597** | **(76)** | **-** | **1,583** |
| Amortization of acquired intangible assets | (103) | (6) | - | - | (109) |
| Gain (loss) on divestment of operations etc. | (29) | - | - | - | (29) |
| **Operating profit (loss)** | **930** | **591** | **(76)** | **-** | **1,445** |
| Share of profit (loss) in associates | 2 | - | - | - | 2 |
| Financial income | 257 | 72 | 123 | (268) | 184 |
| Financial expenses | (274) | (59) | (171) | 268 | (236) |
| **Profit (loss) before tax** | **915** | **604** | **(124)** | **-** | **1,395** |
| Tax on profit (loss) | (224) | (113) | 28 | - | (309) |
| **Profit (loss) for the year from continuing operations** | **691** | **491** | **(96)** | **-** | **1,086** |
| **Discontinued operations** | | | | | |
| Profit (loss) for the year from discontinued operations | (53) | - | - | - | (53) |
| **Profit (loss) for the year** | **638** | **491** | **(96)** | **-** | **1,033** |
| Impairment losses and reversals regarding intangible assets and property, plant and equipment recognized in the income statement | (27) | (1) | - | - | (28) |

Transactions between segments are based on market terms. Eliminations in the income statement concern internal revenue, intersegment rent, management fee and interest.

**Other segment disclosures 2016**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| Incurred development costs | (503) | (254) | (6) | - | (763) |
| Capitalized development costs | 269 | 126 | - | - | 395 |
| Amortization and depreciation | (220) | (89) | - | - | (309) |
| **Expensed development costs** | **(454)** | **(217)** | **(6)** | **-** | **(677)** |
| **EBITDA** | **1,171** | **634** | **(45)** | **-** | **1,760** |
| Depreciation and software amortization | (109) | (37) | (31) | - | (177) |
| **EBITA*)** | **1,062** | **597** | **(76)** | **-** | **1,583** |

## 2.1 Segment disclosures (Continued)

**Income statement 2015**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| External revenue | 4,526 | 3,229 | - | - | 7,755 |
| Internal revenue | - | - | 57 | (57) | - |
| **Revenue** | **4,526** | **3,229** | **57** | **(57)** | **7,755** |
| Production costs | (1,474) | (1,532) | - | - | (3,006) |
| **Gross profit** | **3,052** | **1,697** | **57** | **(57)** | **4,749** |
| Expensed development costs | (428) | (209) | (14) | - | (651) |
| Selling and distribution costs | (1,443) | (818) | - | - | (2,261) |
| Management and administrative expenses | (267) | (131) | (121) | 57 | (462) |
| Other operating income and costs, net | 7 | 1 | - | - | 8 |
| **EBITA*)** | **921** | **540** | **(78)** | **-** | **1,383** |
| Amortization of acquired intangible assets | (63) | (11) | - | - | (74) |
| Gain (loss) on divestment of operations etc. | (10) | - | - | - | (10) |
| Beltone Network non-recurring items | (150) | - | - | - | (150) |
| **Operating profit (loss)** | **698** | **529** | **(78)** | **-** | **1,149** |
| Share of profit (loss) in associates | 5 | - | - | - | 5 |
| Financial income | 74 | 23 | 34 | (34) | 97 |
| Financial expenses | (142) | (40) | (87) | 34 | (235) |
| **Profit (loss) before tax** | **635** | **512** | **(131)** | **-** | **1,016** |
| Tax on profit (loss) | (185) | (115) | 31 | - | (269) |
| **Profit (loss) for the year from continuing operations** | **450** | **397** | **(100)** | **-** | **747** |
| **Discontinued operations** | | | | | |
| Profit (loss) for the year from discontinued operations | 58 | - | - | - | 58 |
| **Profit (loss) for the year** | **508** | **397** | **(100)** | **-** | **805** |
| Impairment losses and reversals regarding intangible assets and property, plant and equipment recognized in the income statement | (1) | - | - | - | (1) |

Transactions between segments are based on market terms. Eliminations in the income statement concern internal revenue, intersegment rent, management fee and interest.

**Other segment disclosures 2015**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| Incurred development costs | (444) | (260) | (14) | - | (718) |
| Capitalized development costs | 249 | 138 | - | - | 387 |
| Amortization and depreciation | (233) | (87) | - | - | (320) |
| **Expensed development costs** | **(428)** | **(209)** | **(14)** | **-** | **(651)** |
| **EBITDA** | **1,018** | **577** | **(49)** | **-** | **1,546** |
| Depreciation and software amortization | (97) | (37) | (29) | - | (163) |
| **EBITA*)** | **921** | **540** | **(78)** | **-** | **1,383** |

*) Excluding Beltone Network non-recurring items, Gain (loss) on divestment of operations etc. and Amortization of acquired intangible assets but including amortization of own development projects and software.

## 2.1 Segment disclosures (Continued)

**Balance sheet 2016**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Goodwill | 3,661 | 711 | - | - | 4,372 |
| Development projects | 798 | 267 | - | - | 1,065 |
| Other intangible assets | 854 | 149 | 81 | - | 1,084 |
| Property, plant and equipment | 262 | 71 | 175 | - | 508 |
| Loans to dispensers and ownership interests | 865 | - | - | - | 865 |
| Other non-current assets | 567 | 209 | - | (77) | 699 |
| **Total non-current assets** | **7,007** | **1,407** | **256** | **(77)** | **8,593** |
| Inventories | 425 | 290 | - | - | 715 |
| Trade receivables | 1,177 | 1,005 | 1 | - | 2,183 |
| Receivables from subsidiaries* | - | 2,229 | - | (2,229) | - |
| Tax receivables | 49 | 8 | - | (43) | 14 |
| Other receivables | 171 | 51 | 9 | - | 231 |
| Cash and cash equivalents | 114 | 64 | - | - | 178 |
| **Total current assets** | **1,936** | **3,647** | **10** | **(2,272)** | **3,321** |
| Assets held for sale | 921 | - | - | - | 921 |
| **Total assets** | **9,864** | **5,054** | **266** | **(2,349)** | **12,835** |
| **Equity and Liabilities** | | | | | |
| **Equity** | **6,802** | **3,961** | **(5,143)** | **-** | **5,620** |
| Bank loans | - | - | 3,527 | - | 3,527 |
| Pension obligations and deferred tax | 293 | 101 | 179 | (77) | 496 |
| Provisions | 238 | 9 | 1 | - | 248 |
| Other non-current liabilities | 325 | - | - | - | 325 |
| **Total non-current liabilities** | **856** | **110** | **3,707** | **(77)** | **4,596** |
| Bank loans | - | 8 | 47 | - | 55 |
| Trade payables | 245 | 380 | 17 | - | 642 |
| Amounts owed to subsidiaries* | 681 | - | 1,548 | (2,229) | - |
| Tax payables | 43 | 63 | 9 | (43) | 72 |
| Provisions | 222 | 67 | - | - | 289 |
| Other current liabilities | 804 | 465 | 81 | - | 1,350 |
| **Total current liabilities** | **1,995** | **983** | **1,702** | **(2,272)** | **2,408** |
| Liabilities directly associated with assets held for sale | 211 | - | - | - | 211 |
| **Total equity and liabilities** | **9,864** | **5,054** | **266** | **(2,349)** | **12,835** |

Eliminations in the balance sheet concern tax and intercompany balances.

*Net amount

## 2.1 Segment disclosures (Continued)

**Cash flow statement 2016**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| **Cash flow from operating activities before changes in working capital** | **1,397** | **712** | **(52)** | **-** | **2,057** |
| Cash flow from changes in working capital | (32) | 36 | 10 | - | 14 |
| **Cash flow from operating activities before financial items and tax** | **1,365** | **748** | **(42)** | **-** | **2,071** |
| Cash flow from investing activities: | | | | | |
| Development projects | (355) | (126) | - | - | (481) |
| Other investing activities | (878) | (207) | 1 | - | (1,084) |
| **Cash flow from operating and investing activities before financial items and tax** | **132** | **415** | **(41)** | **-** | **506** |
| Tax and financial items | (186) | (75) | (7) | - | (268) |
| **Cash flow from operating and investing activities (free cash flow)** | **(54)** | **340** | **(48)** | **-** | **238** |

## 2.1 Segment disclosures (Continued)

**Balance sheet 2015**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Goodwill | 3,069 | 537 | - | - | 3,606 |
| Development projects | 961 | 223 | - | - | 1,184 |
| Other intangible assets | 532 | 38 | 109 | - | 679 |
| Property, plant and equipment | 284 | 71 | 179 | - | 534 |
| Loans to dispensers and ownership interests | 1,008 | - | - | - | 1,008 |
| Other non-current assets | 602 | 158 | - | 3 | 763 |
| **Total non-current assets** | **6,456** | **1,027** | **288** | **3** | **7,774** |
| Inventories | 491 | 229 | - | - | 720 |
| Trade receivables | 1,345 | 909 | 1 | - | 2,255 |
| Receivables from subsidiaries* | - | 1,970 | - | (1,970) | - |
| Tax receivables | 57 | 11 | 13 | (18) | 63 |
| Other receivables | 151 | 71 | 10 | - | 232 |
| Cash and cash equivalents | 104 | 28 | - | - | 132 |
| **Total current assets** | **2,148** | **3,218** | **24** | **(1,988)** | **3,402** |
| **Total assets** | **8,604** | **4,245** | **312** | **(1,985)** | **11,176** |
| **Equity and Liabilities** | | | | | |
| **Equity** | **5,996** | **3,380** | **(3,612)** | **-** | **5,764** |
| Bank loans | - | - | 2,297 | - | 2,297 |
| Pension obligations and deferred tax | 340 | 48 | 184 | (12) | 560 |
| Provisions | 50 | 8 | 1 | - | 59 |
| Other non-current liabilities | 301 | - | - | - | 301 |
| **Total non-current liabilities** | **691** | **56** | **2,482** | **(12)** | **3,217** |
| Bank loans | 14 | 12 | 21 | - | 47 |
| Trade payables | 335 | 379 | 17 | - | 731 |
| Amounts owed to subsidiaries* | 627 | - | 1,343 | (1,970) | - |
| Tax payables | 25 | 5 | 1 | (3) | 28 |
| Provisions | 206 | 69 | 7 | - | 282 |
| Other current liabilities | 710 | 344 | 53 | - | 1,107 |
| **Total current liabilities** | **1,917** | **809** | **1,442** | **(1,973)** | **2,195** |
| **Total equity and liabilities** | **8,604** | **4,245** | **312** | **(1,985)** | **11,176** |

Eliminations in the balance sheet concern tax and intercompany balances.

*Net amount

## 2.1 Segment disclosures (Continued)

**Cash flow statement 2015**

| DKK million | GN Hearing | GN Audio | Other GN | Eliminations | Consolidated total |
|---|---|---|---|---|---|
| **Cash flow from operating activities before changes in working capital** | **1,339** | **681** | **(74)** | **-** | **1,946** |
| Cash flow from changes in working capital | (29) | (127) | 5 | - | (151) |
| **Cash flow from operating activities before financial items and tax** | **1,310** | **554** | **(69)** | **-** | **1,795** |
| Cash flow from investing activities: | | | | | |
| Development projects | (322) | (138) | - | - | (460) |
| Other investing activities | (199) | (60) | (35) | - | (294) |
| **Cash flow from operating and investing activities before financial items and tax** | **789** | **356** | **(104)** | **-** | **1,041** |
| Tax and financial items | (244) | (85) | (16) | - | (345) |
| **Cash flow from operating and investing activities (free cash flow)** | **545** | **271** | **(120)** | **-** | **696** |

### § Accounting policies

**Segment Information**

GN Store Nord's management has identified GN Audio and GN Hearing as the reportable segments in the Group. GN Audio is selling hands-free communications solutions in the form of headsets for mobile phones and traditional phones. GN Hearing is operating within the hearing instrument industry, primarily producing and selling hearing instruments and products related hereto.

Segment information is based on the Group's Accounting Policies. In the Group, segment performance is evaluated on the basis of EBITA as defined under key ratio definitions. Segment revenue and expense and segment assets and liabilities comprise items directly attributable to a segment and items that can be allocated to a segment on a reasonable basis.

**Revenue**

Revenue from sale of goods and rendering of services is recognized in the income statement provided that delivery and transfer of risk to the buyer has taken place before year-end and that the income can be reliably measured and is expected to be received. Extended warranties are separated from the sale of goods and recognized on a straight-line basis over the term of the contract. The value of extended warranties that is not separately priced is estimated. Revenue is measured excluding VAT, taxes and granted cash and quantity discounts in relation to the sale and expected returns of goods. The portion of goods sold that is expected to be returned is determined based on historical product returns data.

**Development costs**

Development costs comprise costs, salaries, and depreciation of operating assets and equipment directly or indirectly attributable to the Group's development activities. Furthermore, amortization and write-down of capitalized development projects are included.

**Production Costs**

Production costs comprise costs, including depreciation and salaries, incurred in generating the revenue for the year. Production costs include direct and indirect costs for raw materials and consumables, wages and salaries, maintenance and depreciation and impairment of production plant and costs and expenses relating to the operation, administration and management of factories. Also included are inventory write-downs.

**Selling and Distribution Costs**

Selling and distribution costs comprise costs relating to the sale and distribution of products and services, including salaries, sales commissions, advertising and marketing costs, depreciation and impairment, etc. Also included are losses on trade receivables.

**Management and Administrative Expenses**

Management and administrative expenses comprise expenses incurred for management and administration. Administrative expenses include office expenses, depreciation and impairment, etc.

## 2.1 Segment disclosures (Continued)

**Other Operating Income and Costs**
Other operating income and costs comprise items secondary to the principal activities of the enterprises.

### Significant accounting estimates

**Revenue Recognition**
Significant accounting estimates and judgments involve determining the portion of expected returns of goods as well as the amount of discounts and rebates. The portion of goods sold that is expected to be returned is estimated based on historical product returns data

## 2.2 Geographical information

| | Revenue | | Intangible assets and property, plant and equipment | |
|---|---|---|---|---|
| DKK million | 2016 | 2015 | 2016 | 2015 |
| Denmark | 225 | 244 | 2,039 | 2,170 |
| Rest of Europe | 2,777 | 2,598 | 367 | 414 |
| North America | 4,045 | 3,409 | 4,378 | 3,203 |
| Asia and rest of world | 1,604 | 1,504 | 245 | 216 |
| **Consolidated Total** | **8,651** | **7,755** | **7,029** | **6,003** |

Revenues are attributed to countries on the basis of the customer's location. Intangible assets and property, plant and equipment are attributed based on the physical location of the assets. Only the US (included under the headline North America) represents a material single country.

## 2.3 Staff costs

| DKK million | 2016 | 2015 |
|---|---|---|
| Wages, salaries and remuneration | (2,271) | (2,095) |
| Pensions | (93) | (92) |
| Other social security costs | (260) | (224) |
| Share-based payments | (22) | (19) |
| **Total** | **(2,646)** | **(2,430)** |
| Included in: | | |
| Production costs and change in payroll costs included in inventories | (403) | (418) |
| Development costs | (453) | (428) |
| Selling and distribution costs | (1,414) | (1,238) |
| Management and administrative expenses | (376) | (346) |
| **Total** | **(2,646)** | **(2,430)** |
| Average number of employees | 5,225 | 4,860 |
| Number of employees, year-end | 5,400 | 5,040 |

For information regarding the remuneration of the Board of Directors and Executive Management, please refer to note 5.3.

## 2.4 Tax

### Tax on profit (Loss)

| DKK million | 2016 | 2015 |
|---|---|---|
| Tax on profit (loss) | | |
| Current tax for the year | (315) | (156) |
| Deferred tax for the year | (2) | (134) |
| Effect of change in income tax rates | 5 | 18 |
| Withholding tax | (1) | (4) |
| Adjustment to current tax with respect to prior years | 14 | 6 |
| Adjustment to deferred tax with respect to prior years | (10) | 1 |
| **Total** | **(309)** | **(269)** |
| **Reconciliation of effective tax rate** | | |
| Danish tax rate | 22.0% | 23.5% |
| Effect of tax rates in foreign jurisdictions | 4.1% | 2.6% |
| Non-taxable income | (0.4)% | (0.3)% |
| Non-deductable expenses | 2.2% | 1.9% |
| Utilization of previously not recognized tax assets | (5.4)% | (2.2)% |
| Unrecognized tax assets | 0.1% | 3.4% |
| Withholding tax | 0.1% | 0.4% |
| Effect of change in income tax rates | (0.4)% | (1.7)% |
| Share of profit (loss) in associates | (0.1)% | (0.1)% |
| Adjustment of tax with respect to prior years | (0.3)% | (0.8)% |
| Other | 0.5% | (0.4)% |
| **Effective tax rate** | **22.4%** | **26.3%** |
| Effective tax rate, continuing operations | 22.2% | 26.5% |
| Effective tax rate, discontinued operations | 15.9% | 23.7% |
| **Tax relating to other comprehensive income** | | |
| Actuarial gains (losses) | 1 | (6) |
| Adjustment of cash flow hedges | 9 | (7) |
| Foreign exchange adjustments, etc. | (12) | (3) |
| **Total** | **(2)** | **(16)** |

### Current Tax

| DKK million | 2016 | 2015 |
|---|---|---|
| **Tax payable and tax receivable** | | |
| Tax payable at January 1, net | 35 | (85) |
| Foreign exchange adjustments | 2 | (1) |
| Adjustment with respect to prior years | 14 | 6 |
| Payment relating to prior years | (49) | 79 |
| Current tax for the year | (315) | (166) |
| Current tax for the year recognized in other comprehensive income for the year | 6 | (2) |
| Current tax for the year recognized in discontinued operations | 10 | - |
| Withholding tax for the year | (1) | (4) |
| Payment of withholding tax for the year | 1 | 4 |
| Tax related to share-based incentive plans | 6 | 13 |
| Payments relating to the current year | 233 | 191 |
| **Tax receivable (payable) at December 31, net** | **(58)** | **35** |
| **Current tax is recognized as follows in the balance sheet:** | | |
| Tax receivable (assets) | 19 | 63 |
| Tax payable (liabilities) | (76) | (28) |
| Assets held for sale | (5) | - |
| Liabilities directly associated with assets held for sale | 4 | - |
| **Tax receivable (payable) at December 31, net** | **(58)** | **35** |

## 2.4 Tax (Continued)

### Deferred Tax

| DKK million | 2016 | 2015 |
|---|---|---|
| **Deferred tax, net** | | |
| Deferred tax at January 1, net | 11 | 94 |
| Adjustment with respect to prior years | (10) | 3 |
| Effect of change in income tax rates | 5 | 18 |
| Addition of deferred tax on acquisition of enterprises | (60) | (1) |
| Deferred tax for the year recognized in profit (loss) for the year | (2) | (144) |
| Deferred tax for the year recognized in other comprehensive income for the year | (8) | (14) |
| Tax related to share-based incentive plans | - | 9 |
| Foreign exchange adjustments | 15 | 46 |
| Deferred tax for the year recognized in assets and liabilities held for sale | 62 | - |
| **Deferred tax at December 31, net** | **13** | **11** |
| **Deferred tax is recognized in the balance sheet as follows:** | | |
| Deferred tax assets | 448 | 507 |
| Deferred tax liabilities | (497) | (496) |
| Assets held for sale | (5) | - |
| Liabilities directly associated with assets held for sale | 67 | - |
| **Deferred tax at December 31, net** | **13** | **11** |
| **Deferred tax, net relates to:** | | |
| Intangible assets | (443) | (406) |
| Property, plant and equipment | 26 | 32 |
| Other securities | 105 | 56 |
| Current assets | 66 | 71 |
| Current liabilities | 4 | 6 |
| Intercompany liabilities | (1) | - |
| Tax loss carryforwards | 224 | 190 |
| Retaxation | (152) | (152) |
| Provisions | 200 | 189 |
| Other | (16) | 25 |
| **Total** | **13** | **11** |
| **Tax value of unrecognized tax assets** | | |
| Tax loss carryforwards | 149 | 219 |
| Other tax assets | 34 | 32 |
| **Unrecognized tax assets at December 31** | **183** | **251** |

Unrecognized tax assets are based on the Group's expectations to the future utilization of the tax assets. A number of tax loss carryforwards expire between 2017-2033.

Deferred tax, net includes DKK 15 million expected to be utilized within 12 months.

## § Accounting policies

**Tax on Profit (Loss) for the year**

The parent company is jointly taxed with all Danish subsidiaries. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit (loss) for the year is recognized in the income statement, and the tax expense relating to amounts recognized in other comprehensive income is recognized in other comprehensive income.

Current tax payable is recognized in current liabilities and deferred tax is recognized in non-current liabilities. Tax receivable is recognized in current assets and deferred tax assets are recognized in non-current assets.

## 2.4 Tax (Continued)

**Deferred tax**

Deferred tax assets, including the tax base of tax loss carryforwards, are recognized at the expected value of their utilization, either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax is not recognized on goodwill unless this is deductible for tax purposes. Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallize as current tax. The change in deferred tax as a result of changes in tax rates is recognized in the income statement. If a tax deduction on computation of the taxable income in Denmark or in foreign jurisdictions is obtained as a result of share-based payment programs, the tax benefit for the deduction is recognized directly in the balance sheet. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized

### ! Significant accounting estimates

**Deferred tax**

Management has made judgments in determining the Company's valuation of tax, deferred tax assets and deferred tax liabilities and the extent to which deferred tax assets are recognized. GN Store Nord recognizes deferred tax assets only to the extent that it is probable that taxable profit will be available against which the temporary differences and unused tax losses can be utilized

## 2.5 Income statement classified by function

The group presents the income statement based on a classfication of costs by function. However, in order to present EBITA (as defined on page 94) in the income statement,  which is the measure of profit used by management, amortisation of acquired intangible assets are separated from the individual functions and presented as a separate line item. If amortisation of acquired intangible assets are allocated to the individual line items by function the income statement will present as follows:

| DKK million | 2016 | 2015 |
|---|---|---|
| Revenue | 8,651 | 7,755 |
| Production costs | (3,250) | (3,006) |
| **Gross profit** | **5,401** | **4,749** |
| | | |
| Development costs | (703) | (657) |
| Selling and distribution costs | (2,647) | (2,329) |
| Management and administrative expenses | (579) | (462) |
| Other operating income and costs, net | 2 | 8 |
| Gain (loss) on divestment of operations etc. | (29) | (10) |
| Beltone Network non-recurring items | - | (150) |
| **Operating profit (loss)** | **1,445** | **1,149** |
| | | |
| **In the above income statement amortization of acquired intangible assets has been allocated to functions as follows:** | | |
| Development costs | (26) | (6) |
| Selling and distribution costs | (83) | (68) |
| **Amortization of acquired intangible assets** | **(109)** | **(74)** |

# Section 3 Operating assets and liabilities

## 3.1 Intangible assets

| DKK million | Goodwill | Development projects, developed in-house | Software | Patents and rights | Other | Total |
|---|---|---|---|---|---|---|
| Cost at January 1 | 3,606 | 3,312 | 581 | 389 | 824 | 8,712 |
| Additions on company acquisitions | 788 | 2 | 5 | 4 | 463 | 1,262 |
| Additions | - | 481 | 72 | 106 | 84 | 743 |
| Disposals | (4) | (467) | (13) | - | (66) | (550) |
| Transfers | - | - | - | - | - | - |
| Transferred to assets held for sale | (149) | (555) | (19) | (86) | (16) | (825) |
| Foreign exchange adjustments | 131 | - | 6 | 4 | 42 | 183 |
| Cost at December 31 | 4,372 | 2,773 | 632 | 417 | 1,331 | 9,525 |
| Amortization and impairment at January 1 | - | (2,128) | (355) | (266) | (494) | (3,243) |
| Amortization | - | (340) | (63) | (27) | (82) | (512) |
| Disposals | - | 460 | 9 | - | 3 | 472 |
| Impairment | - | (9) | (18) | - | (1) | (28) |
| Transferred to assets held for sale | - | 309 | 13 | 5 | 3 | 330 |
| Foreign exchange adjustments | - | - | (4) | (5) | (14) | (23) |
| Amortization and impairment at December 31 | - | (1,708) | (418) | (293) | (585) | (3,004) |
| **Carrying amount at December 31, 2016** | **4,372** | **1,065** | **214** | **124** | **746** | **6,521** |
| Cost at January 1 | 3,266 | 3,033 | 475 | 334 | 738 | 7,846 |
| Additions on company acquisitions | 34 | - | - | - | 43 | 77 |
| Additions | - | 460 | 99 | 40 | 57 | 656 |
| Disposals | - | (184) | (3) | (1) | (62) | (250) |
| Transfers | - | 3 | - | - | - | 3 |
| Foreign exchange adjustments | 306 | - | 10 | 16 | 48 | 380 |
| Cost at December 31 | 3,606 | 3,312 | 581 | 389 | 824 | 8,712 |
| Amortization and impairment at January 1 | - | (1,964) | (290) | (244) | (413) | (2,911) |
| Amortization | - | (347) | (58) | (7) | (70) | (482) |
| Disposals | - | 184 | 3 | 1 | 20 | 208 |
| Impairment | - | (1) | - | - | - | (1) |
| Transfers | | | | | | |
| Foreign exchange adjustments | - | - | (10) | (16) | (31) | (57) |
| Amortization and impairment at December 31 | - | (2,128) | (355) | (266) | (494) | (3,243) |
| **Carrying amount at December 31, 2015** | **3,606** | **1,184** | **226** | **123** | **330** | **5,469** |

GN Store Nord has not capitalized any borrowing costs in the current or preceding periods as non-current assets are not financed with debt. Impairment of development projects relates to projects for which the sales forecasts cannot justify the capitalized value.

The carrying amount of development projects and software in progress amount to DKK 918 million (2015: DKK 674 million).

**Goodwill**

Additions during the year of DKK 788 million mainly relate to the acquisition of equity shares in hearing instrument chains, distributors and headset manufacturers cf. note 5.1.

Management has performed an impairment test of the carrying amount of goodwill at December 31, 2016. The impairment test covered the Group's cash-generating units (CGU) to which the carrying amount of goodwill is allocated.

## 3.1 Intangible assets (Continued)

| | Carrying amount of goodwill | | Pre-tax discount rate | | Weighted average cost of capital | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Cash-generating units:** | | | | | | |
| Hearing Instruments | 3,661 | 2,922 | 7 | 8 | 6 | 7 |
| Audiologic Diagnostics Equipment | - | 147 | - | 11 | - | 8 |
| Contact Center & Office Headsets | 486 | 319 | 11 | 11 | 9 | 9 |
| Mobile Headsets | 225 | 218 | 13 | 13 | 11 | 11 |
| **Total** | **4,372** | **3,606** | | | | |

In the impairment test, the discounted future cash flows of each CGU were compared with the carrying amounts. Future cash flows are based on the budget for 2017, market forecasts for 2018 - 2021, strategy plans, etc. Budgets and strategy plans are based on specific assumptions for the individual CGU regarding sales, operating profit, working capital, investments in non-current assets, etc. The calculations apply expected growth in the terminal periods of 2.5% p.a.

The recoverable amount for Hearing Instruments at December 31, 2016 has been determined based on a valuation using cash flow projections from budgets and financial forecasts, covering a five-year period, and the communicated strategy plan as approved by the Board of Directors.

Hearing Instruments constitutes the vast majority of the carrying amount of the goodwill and is the only CGU considered to be material for the group. The annual growth in the hearing aid market, in value, is expected to be between 1-4% in average from 2017 to 2021. GN's Hearing Instruments segment expects to deliver organic growth above the market growth. The market growth in the hearing aid industry is driven by four main factors:

- The demographic trends including the increased number of elderly people,
- Increased prevalence of hearing loss due to the increasing noise in the environment,
- Increased penetration rates as more people with a hearing loss will use hearing aids in the future, and
- Increased use of two hearing aids instead of only one, which is relatively common today.

The expected revenue growth in GN's Hearing Instrument segment is based on the current differentiated product offering with unique wireless technology as well as new products to be launched during 2017 and 2018. The EBITA margin is expected to be maintained at a competitive level based on continued efficiencies in manufacturing as well as a strict approach to operating costs. Based on the impairment tests and related assumptions, management has not identified any goodwill impairment at December 31, 2016.

At December 31, 2016 the recoverable amount of the Mobile Headsets CGU was slightly higher than the carrying amount of the Mobile Headsets CGU. However, this was influenced by one-off events impacting the result in 2016. The majority of these challenges have now been resolved and consequently the profitability level is expected to increase from 2017 and onwards in line with long term guidance, which is the assumption applied in the impairment test.

**Development projects and software**
In-progress and completed development projects comprise development and design of hearing instruments, audiologic diagnostics equipment, headsets and other hands free audio solutions. Most development projects are expected to be completed in 2017 and 2018, after which product sales and marketing can be commenced. Management performs at least one annual impairment test of the carrying amount of recognized development costs. The recoverable amount is assessed based on sales forecasts. In Management's assessment, the recoverable amount exceeds the carrying amount.

Software comprises development, design and test of production and planning software and reporting systems, business intelligence etc. Implementation of these systems is expected to optimize internal procedures and processes. In 2016, management assessed that the expected useful lives were reflected in the carrying amounts at December 31, 2016.

**Patents and rights**
Patents and rights primarily comprise acquired patents and rights. The most significant patents and rights relate to technologies for the development of new hearing instruments for GN Hearing, manufacturing and distribution rights regarding ear scanner technology in GN Hearing and rights to the use of certain technologies for development of headsets.

## 3.1 Intangible assets (Continued)

**Other**
The Group's other intangible assets comprise DKK 466 million (2015: DKK 125 million) related to customer lists, DKK 127 million (2015: DKK 91 million) related to trademarks and DKK 153 million (2015: DKK 114 million) related to supply agreements.

### § Accounting policies

**Goodwill**
At the acquisition date goodwill is recognized in the balance sheet at cost as described under Business combinations. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment at least once a year. The carrying amount of goodwill is allocated to the Group’s cash-generating units at the acquisition date. Identification of cash-generating units is based on the management structure and internal financial control.

As a result of the integration of acquired enterprises in the existing group, Management assesses that the smallest cash-generating units to which the carrying amount of goodwill can be allocated are: Contact Center & Office Headsets, Mobile Headsets, Hearing Instruments and Audiologic Diagnostics Equipment.

**Development projects, Software, Patents, Licenses and Other Intangible Assets**
Intangible assets are measured at cost less accumulated amortization and impairment. Amortization is provided on a straight-line basis over the expected useful lives of the assets. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates. Amortization and impairment is recognized in the income statement as production costs, development costs, distribution costs and administrative expenses. The expected useful lives are as follows:

| | |
|---|---|
| Completed development projects | 1-5 years |
| Software | 1-7 years |
| Patents, licenses, trademarks and other intellectual property rights | up to 20 years |

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources and a potential future market or development opportunities in the Company is evidenced, and where GN Store Nord intends to produce, market or use the project, are recognized as intangible assets if it is probable that costs incurred will be covered by future earnings. The cost of such development projects includes direct wages, salaries, materials and other direct and indirect costs attributable to the development projects. Amortization and write-down of such capitalized development projects are started at the date of completion and are included in development costs. Other development costs are recognized in the income statement as incurred.

Gains or losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the disposal date, and are recognized in the income statement as other operating income or other operating costs, respectively.

**Impairment of Goodwill and in-process development projects**
Goodwill is subject to at least one annual impairment test, initially before the end of the acquisition year. Similarly, in-process development projects are tested for impairment at least annually.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the cash-generating unit to which the goodwill is allocated. Goodwill is written down to the recoverable amount if the carrying amount is higher than the computed recoverable amount. The recoverable amount is computed as the present value of the expected future net cash flows from the enterprises or activities to which the goodwill is allocated.

**Recognition of impairment losses in the income statement**
An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment of goodwill is recognized in a separate line item in the income statement. Impairment of goodwill is not reversed

## 3.1 Intangible assets (Continued)

### Significant accounting estimates

**Goodwill**

Determining whether goodwill is impaired requires a comparison of the recoverable amount with the carrying amount. The recoverable amount is determined as the net present value of the future cash flows expected to arise from the cash generating unit to which goodwill is allocated.

**Development projects**

Development projects are measured at cost less accumulated amortization and impairment. An impairment test is performed of the carrying amount of recognized development projects. The impairment test is based on assumptions regarding strategy, product life cycle, market conditions, discount rates and budgets, etc., after the project has been completed and production has commenced. If market-related assumptions etc., are changed, development projects may have to be written down. Management examines and assesses the underlying assumptions when determining whether or not the carrying amount should be written down. In addition, management continuously assess the useful lives of its products to ensure that amortization of development projects reflects the useful lives

## 3.2 Property, plant and equipment

| DKK million | Factory and office buildings | Leasehold improve-ments | Plant and machinery | Operating assets and equipment | Leased plant and equipment | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| Cost at January 1 | 410 | 160 | 744 | 367 | 6 | 12 | 1,699 |
| Additions on company acquisitions | - | 2 | 3 | 9 | - | - | 14 |
| Additions | 11 | 8 | 48 | 25 | 1 | 22 | 115 |
| Disposals | (1) | (5) | (78) | (14) | (2) | - | (100) |
| Transfers | - | 5 | 5 | 3 | - | (13) | - |
| Discontinued operations | - | (11) | (35) | (24) | - | - | (70) |
| Foreign exchange adjustments | (2) | 1 | 1 | 3 | - | - | 3 |
| Cost at December 31 | 418 | 160 | 688 | 369 | 5 | 21 | 1,661 |
| Depreciation and impairment at January 1 | (154) | (121) | (586) | (301) | (3) | - | (1,165) |
| Depreciation | (15) | (11) | (69) | (30) | (1) | - | (126) |
| Disposals | 1 | 4 | 76 | 10 | 2 | - | 93 |
| Transfers | - | - | - | - | - | - | - |
| Discontinued operations | - | 7 | 23 | 18 | - | - | 48 |
| Foreign exchange adjustments | 1 | (1) | (1) | (2) | - | - | (3) |
| Depreciation and impairment at December 31 | (167) | (122) | (557) | (305) | (2) | - | (1,153) |
| **Carrying amount at December 31, 2016** | **251** | **38** | **131** | **64** | **3** | **21** | **508** |
| Cost at January 1 | 374 | 147 | 657 | 322 | 4 | 7 | 1,511 |
| Additions on company acquisitions | - | - | - | 3 | - | - | 3 |
| Additions | 32 | 22 | 58 | 32 | 1 | 34 | 179 |
| Disposals | (7) | (13) | (7) | (10) | (1) | 2 | (36) |
| Transfers | 7 | (4) | 23 | 3 | 2 | (31) | - |
| Foreign exchange adjustments | 4 | 8 | 13 | 17 | - | - | 42 |
| Cost at December 31 | 410 | 160 | 744 | 367 | 6 | 12 | 1,699 |
| Depreciation and impairment at January 1 | (139) | (114) | (517) | (267) | (2) | - | (1,039) |
| Depreciation | (14) | (14) | (62) | (25) | (1) | - | (116) |
| Disposals | 2 | 12 | 4 | 10 | 1 | - | 29 |
| Transfers | (1) | 1 | 3 | (2) | (1) | - | - |
| Foreign exchange adjustments | (2) | (6) | (14) | (17) | - | - | (39) |
| Depreciation and impairment at December 31 | (154) | (121) | (586) | (301) | (3) | - | (1,165) |
| **Carrying amount at December 31, 2015** | **256** | **39** | **158** | **66** | **3** | **12** | **534** |

GN Store Nord has not capitalized any borrowing costs in the current or preceding periods as non-current assets are not financed with debt.

## 3.2 Property, plant and equipment (Continued)

### Accounting policies

**Property, plant and Equipment**

Land and buildings, plant and machinery and fixtures and fittings, other plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and costs of materials, components, suppliers, direct wages and salaries and indirect production costs until the date when the asset is available for use. Liabilities related to dismantling and removing the asset and restoring the site on which the asset is located are added to the cost. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately. Depreciation is provided on a straight-line basis over the expected useful lives of property, plant and equipment. The expected useful lives are as follows:

| | |
|---|---|
| Buildings and installations (land is not depreciated) | 10-50 years |
| Leasehold improvements | 5-20 years |
| Plant and machinery | 1-7 years |
| Operating assets and equipment | 2-7 years |

The basis of depreciation is calculated as the residual value of the asset less impairment losses. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates. Depreciation and impairment is recognized in the income statement as production costs, development costs, distribution costs and administrative expenses.

Expenses for repairs and maintenance of property, plant and equipment are included in the income statement. Gains or losses on disposal or scrapping of an item of property, plant and equipment are determined as the difference between the sales price reduced by costs related to dismantling and removing the asset, selling costs and costs related to restoring the site on which the asset is located and the carrying amount. Gains or losses are recognized in the income statement as Other operating income or Other operating costs, respectively

## 3.3 Depreciation, amortization and impairment

| DKK million | 2016 | 2015 |
|---|---|---|
| Depreciation, amortization and impairment for the year of property, plant and equipment and intangible assets are recognized in the income statement as follows: | | |
| Production costs | (71) | (63) |
| Development costs | (309) | (320) |
| Selling and distribution costs | (31) | (33) |
| Management and administrative expenses | (65) | (57) |
| Amortization of acquired intangible assets | (109) | (74) |
| Discontinued operations | (81) | (52) |
| **Total** | **(666)** | **(599)** |
| Amortization of intangible assets is recognized in the income statement as follows: | | |
| Production costs | (2) | (3) |
| Development costs | (299) | (312) |
| Selling and distribution costs | (15) | (19) |
| Management and administrative expenses | (39) | (30) |
| Amortization of acquired intangible assets | (109) | (74) |
| Discontinued operations | (48) | (44) |
| **Total** | **(512)** | **(482)** |
| Impairment of intangible assets is recognized in the income statement as follows: | | |
| Development costs | (2) | (1) |
| Management and administrative expenses | - | - |
| Discontinued operations | (26) | - |
| **Total** | **(28)** | **(1)** |

## 3.4 Other non-current assets

| DKK million | 2016 | 2015 |
|---|---|---|
| Loans to dispensers of GN Hearing products | 635 | 775 |
| Ownership interests | 230 | 233 |
| RAP, SIP and DCP* | 208 | 190 |
| Owed by associates | 2 | 30 |
| Other | 19 | 11 |
| **Total** | **1,094** | **1,239** |

GN Hearing's assessment of credit risk associated with non-current loans to dispensers depends primarily on change in payment behavior and current economic conditions. Before a loan is extended the creditworthiness of the individual dispenser is analyzed. No individual dispenser accounts for more than 10% of total non-current loans to dispensers.

*RAP (Retirement Advantage Plan) and SIP (Savings and Investment Plan) are programs in which customers earn funds based on purchases made. DCP (Deferred Compensation Plan) is a program in which management in certain foreign subsidiaries may choose to defer compensation. The amounts invested by the Group on behalf of customers and management are recognized in Other non-current assets. The Groups liabilities related to the programs are recognized in Other non-current liabilities at DKK 230 million (2015: DKK 233 million).

### § Accounting policies

**Loans to dispensers**

Loans to dispensers and other receivables are measured at amortized cost less write-down for foreseen bad debt losses.

**Ownership Interests and savings plans**

Ownership interests between 20% and 50% in unlisted enterprises in which GN Store Nord does not exercise significant influence on the financial and operating policies are recognized under non-current assets at cost and are subsequently measured at cost if a reliable measurement of the fair value cannot be made. The savings plans RAP, SIP and DCP are measured at cost.

**Impairment of Other non-current assets**

The carrying amount of Other non-current assets is subject to an annual impairment test for indications of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or the cash-generating unit to which the asset belongs.

**Recognition of impairment losses in the income statement**

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds the recoverable amount of the asset or the cash-generating unit. Impairment losses are recognized in the income statement under the respective functions. Impairment losses of Ownership interests are recognized under financial expenses in the income statement.

Impairment of other assets is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortization had the asset not been impaired

### ! Significant accounting estimates

**Financial support arrangements**

GN Store Nord grants loans to dispensers and acquires ownership interests in dispensers. The agreements are typically comprehensive, complex and cover several aspects of the relationship between the parties. Management assesses the recognition and classification of income and expenses for each of these agreements, including whether the agreement has an embedded supply agreement or represent a discount on future sales. Management also assesses whether current economic conditions and changes in customers' payment behavior could indicate impairment of the outstanding balances.

Ownership interest which are not measured at fair value are subject to an annual impairment test for indications of impairment. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined

## 3.5 Provisions

| DKK million | Warranty provisions | Other provisions | Total |
|---|---|---|---|
| Provisions at January 1 | 130 | 211 | 341 |
| Additions | 89 | 265 | 354 |
| Consumed | (76) | (53) | (129) |
| Reversed | (2) | (17) | (19) |
| Foreign exchange adjustments | - | 5 | 5 |
| Liabilities directly associated with assets held for sale | (9) | (6) | (15) |
| **Provisions at December 31, 2016** | **132** | **405** | **537** |
| **Which is presented in the consolidated balance sheet as:** | | | |
| Non-current liabilities | 40 | 208 | 248 |
| Current liabilities | 92 | 197 | 289 |
| **Provisions at December 31, 2016** | **132** | **405** | **537** |

Warranty provisions concern products sold. The warranty provision covers any defects in design, materials and workmanship for a period of 1-4 years from delivery and completion. Other provisions primarily include earn-outs of DKK 178 million (2015: DKK 28 million). The remaining items in other provisions primarily include obligations to take back hearing aids and headsets sold, obligations regarding onerous contracts and property leases and provisions for legal defense.

### Accounting policies

**Provisions**

Warranty provisions are recognized as the underlying goods and services are sold based on warranty costs incurred in previous years and expectations of future costs.

Other provisions primarily comprise onerous contracts and return obligations related to sold products. Provisions are recognized when, as a result of events before or at the balance sheet date, the Group has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation. On measurement of provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract (onerous contracts). A provision for onerous contracts is recognized e.g. when the Company has entered a binding legal agreement for the purchase of components from suppliers that exceeds the benefits from the expected future use of the components and the Company can only sell the components at a loss

### Significant accounting estimates

**Provisions**

Warranty provisions are recognized based on historical and future warranty costs related to the Group's products. Future warranty costs may differ from past practices and the level of costs. The amount recognized as a provision is Management's best estimate of the expenses required to settle the obligation.

In accordance with GN Store Nord's business policy, some products are supplied with a right of return. Provisions for future returns of goods are recognized based on historical product returns data. The probability of future returns may differ from past practices. At December 31, 2016, the carrying amount of provisions with respect to obligations to take back goods was DKK 115 million (2015: DKK 114 million).

Agreement has been made with a number of the suppliers that the suppliers purchase components for the production of hearing instruments, headsets and audiologic diagnostics equipment based on sales estimates prepared by GN Store Nord. To the extent that GN Store Nord's actual purchases from suppliers are lower than sales estimates, GN Store Nord will be under an obligation to purchase any remaining components from the suppliers. Management assesses sales estimates on an ongoing basis, and to the extent that component inventories at suppliers are not expected to be used, GN Store Nord recognizes a provision for onerous purchase contracts

## 3.6 Inventories

| DKK million | 2016 | 2015 |
|---|---|---|
| Raw materials and consumables | 262 | 269 |
| Work in progress | 7 | 11 |
| Finished goods and merchandise | 446 | 440 |
| **Total** | **715** | **720** |
| The above includes write-downs amounting to | (100) | (119) |
| Write-downs recognized in the income statement under production costs | 30 | 12 |
| Reversed write-downs recognized under production costs | 2 | - |
| Production costs include costs of goods sold of | 2,820 | 2,609 |

### § Accounting policies

**Inventories**

Inventories are measured at cost in accordance with the FIFO-principle. Inventories in GN Hearing are measured at cost using the standard cost method. Standard costs take into account normal levels of raw materials and consumables, staff costs, efficiency and capacity utilization. Standard costs are reviewed regularly and adjusted in accordance with the FIFO-principle.

Raw materials and goods for resale are measured at cost, comprising purchase price plus delivery costs.

Work in progress and finished goods are measured at cost, comprising the cost of direct materials, wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials, wages and salaries, maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management.

Where the net realizable value is lower than cost, inventories are written down to this lower value. The net realizable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale

### ! Significant accounting estimates

**Measurement of inventories**

The net realizable value of inventories is calculated based on the size of the inventory and decreases in the recoverable amount of purchased raw materials, technical obsolescence (e.g., faulty products), physical obsolescence (e.g. damaged products) and financial obsolescence (e.g., reduced demand or substituting products). GN Store Nord performs write-downs of inventories based on an individual assessment of products or product groups and expected product sales from 12 to 24 months following the balance sheet date

## 3.7 Trade receivables

| DKK million | 2016 | 2015 |
|---|---|---|
| Trade receivables | 2,183 | 2,255 |
| **Total** | **2,183** | **2,255** |

Trade receivables have the following maturities:

| | | |
|---|---|---|
| Not due | 1,751 | 1,757 |
| Due 30 days or less | 136 | 168 |
| Due more than 30 days but less than 90 days | 124 | 135 |
| Due more than 90 days | 172 | 195 |
| **Total** | **2,183** | **2,255** |

Write-downs, which are included in total trade receivables, have developed as follows:

| | | |
|---|---|---|
| Write-downs at January 1 | (112) | (114) |
| Write-downs made during the year | (60) | (55) |
| Realized during the year | 30 | 15 |
| Reversed write-downs | 32 | 45 |
| Transferred to assets held for sale | 14 | - |
| Foreign exchange adjustments | (1) | (3) |
| **Write-downs at December 31** | **(97)** | **(112)** |

Total write-downs of DKK 97 million are included in trade receivables at the end of 2016 (2015: DKK 112 million). In 2016 no material write-downs have been recognized regarding individual receivables (2015: no material write-downs have been recognized regarding individual receivables). GN Store Nord's assessment of credit risk associated with individual receivables depends primarily on aging, change in customer payment behavior, current economic conditions etc. as described in significant accounting estimates. Based on past experience, GN Store Nord believes that no write-down is necessary in respect of trade receivables not past due.

No security has been pledged to GN Store Nord for trade receivables.

Trade receivables include the following overdue but not written down receivables:

| | | |
|---|---|---|
| Due 30 days or less | 83 | 125 |
| Due more than 30 days but less than 90 days | 55 | 65 |
| Due more than 90 days | 12 | 37 |
| **Total** | **150** | **227** |

### § Accounting policies

Trade receivables are measured at amortized cost less write-down for foreseen bad debt losses. Write-down for bad debt losses is based on an individual assessment of each receivable and at portfolio level

### ! Significant accounting estimates

**Measurement of trade receivables**

If a customer's financial condition deteriorates, further write-downs may be required in future periods. In assessing the adequacy of write-downs for bad debt losses, Management specifically analyzes receivables, including doubtful debts, concentrations of credit risk, credit ratings, current economic conditions and changes in customers' payment behavior

## 3.8 Other payables

| DKK million | 2016 | 2015 |
|---|---|---|
| Employee costs payable | 427 | 360 |
| Bonuses and discounts to customers | 377 | 313 |
| Other | 546 | 434 |
| **Total** | **1,350** | **1,107** |

# Section 4 Capital structure and financing items

## 4.1 Outstanding shares and treasury shares

| | Outstanding shares (thousands) | Treasury shares (thousands) | Total number of shares (thousands) | Nominal value of outstanding shares (DKK thousands) | Nominal value of treasury shares (DKK thousands) | Nominal value of total shares (DKK thousands) | Treasury shares as a percentage of share capital |
|---|---|---|---|---|---|---|---|
| Number/value of shares at January 1, 2016 | 152,254 | 9,937 | 162,191 | 609,016 | 39,749 | 648,765 | 6.1% |
| Purchase of ownership interest in subsidiaries | 754 | (754) | - | 3,016 | (3,016) | - | |
| Shares acquired/sold by GN Store Nord A/S | (9,537) | 9,537 | - | (38,148) | 38,148 | - | |
| Shares cancelled | - | (7,403) | (7,403) | - | (29,612) | (29,612) | |
| **Number/value of shares at December 31, 2016** | **143,471** | **11,317** | **154,788** | **573,884** | **45,269** | **619,153** | **7.3%** |

The treasury shares had a market value of DKK 1,656 million at December 31, 2016 (2015: DKK 1,245 million). The total cost of acquired treasury shares in 2016 was DKK 1,272 million (2015: DKK 1,162 million).

| Shares thousand | 2016 | 2015 |
|---|---|---|
| Weighted average number of outstanding shares | 147,967 | 156,013 |
| Dilutive effect of share based payment with positive intrinsic value – average for the period | 394 | 721 |
| **Diluted weighted average number of shares** | **148,361** | **156,734** |
| DKK million | | |
| Profit (loss) for the year used for the calculation of earnings per share | 1,033 | 805 |
| Dilutive effect of profit (loss) for the year | - | - |
| **Profit (loss) for the year used for the calculation of diluted earnings per share** | **1,033** | **805** |

### § Accounting policies

**Earnings per Share and Diluted Earnings per Share**

Earnings per share (EPS) is calculated by dividing the profit for the year after tax by the weighted average number of shares outstanding in the year. Diluted earnings per share are calculated by increasing the weighted average number of shares outstanding by the number of additional ordinary shares that would be outstanding if potentially dilutive shares were issued. The dilutive effect of outstanding share based payment is calculated using the Treasury Stock method.

**Equity**

***Dividends***

The expected dividend payment for the year is disclosed as a separate item in equity. Proposed dividends are recognized as a liability at the date they are adopted by the Annual General Meeting (declaration date).

***Additional paid-in capital***

Additional paid-in capital includes amounts exceeding the nominal share capital paid in by shareholders in relation to capital increases and gains/losses on the sale of treasury shares. This reserve forms part of GN's distributable reserves.

***Hedging reserve***

The hedging reserve includes the accumulated net change in the fair value of hedging transactions qualifying for hedge accounting.

## 4.1 Outstanding shares and treasury shares (Continued)

***Treasury Shares***
Treasury shares are recognized at cost. Gains and losses on disposal of own shares are calculated as the difference between the purchase price measured in accordance with the FIFO-principle and the selling price. Gains or losses are recognized directly in additional paid-in capital. Dividends received from treasury shares are recognized directly in retained earnings. Capital reductions from the cancellation of treasury shares are deducted from the share capital at an amount corresponding to the nominal value of the shares.

***Foreign exchange adjustments***
The translation reserve in the consolidated financial statements comprises foreign exchange differences arising on translation of financial statements of foreign subsidiaries from their functional currencies into the presentation currency used by GN Store Nord (DKK) and foreign exchange adjustments of balances considered to be part of the total net investment in foreign entities

## 4.2 Financial risks and financial instruments

**Foreign currency risk**
GN Store Nord has exposure towards several foreign currencies in connection with commercial transactions. The overall objective of hedging GN Store Nord's currency exposure is to reduce the short-term impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results. GN Store Nord hedges any significant currency risk, which in 2016 has been future income (long positions) in the USD, GBP, CAD and JPY and future costs (short positions) in the CNY. Expected cash flows are continually assessed using budget and sales forecasts. GN Store Nord does not raise loans or place surplus cash in foreign currency unless doing so reduces a currency exposure.

GN Store Nord has several balance sheet items denominated in USD, including most of its goodwill. Although intercompany balances are eliminated in the consolidated financial statements these can also result in foreign exchange rate gains and losses.

At year-end a hypothetical increase of 5% in the USD/DKK and CNY/DKK exchange rates would affect the Income Statement and Other Comprehensive Income as outlined in the table below:

| DKK million | 2016 | 2015 |
|---|---|---|
| Income statement | (29) | (2) |
| Other Comprehensive Income | (44) | (35) |

The sensitivity analysis comprises cash and cash equivalents, current receivables, trade payables, current and non-current loans, current intercompany balances and derivative exchange rate instruments as of December 31, 2016. The effects of a change in foreign exchange rates related to these items would be included in financial items in the income statement. A change in the derivative exchange rate instruments used for hedging would be included in Other Comprehensive Income.

**Interest rate risk**
GN Store Nord has hedged a large part of the interest rate exposure on loans with interest rate swaps. Hedge accounting has been applied during 2016. The fair value of the interest rate swaps are determined using forward interest rates and can be categorized as level 2 (observable inputs) in the fair value hierarchy. Currently, 60% of the drawn debt as of December 31, 2016 is fixed with a majority of the loans having more than one year to maturity. The market value of the hedging portfolio will increase with DKK 0.6 million for every 1 bps parallel increase in the underlying floating interest rates.

Based on the bank loans and the interest rate swaps at year-end a 1 percentage point increase in the interest rate level would result in a net increase in the annual interest expenses of DKK 6.9 million. Other comprehensive income would increase by DKK 64 million due to a change in the value of the interest rate swaps concerning future interest payments.

**Funding, liquidity and capital structure**
At December 31, 2016, GN Store Nord had an equity ratio of 43.8% (2015: 51.6%) and net interest-bearing debt of DKK 3,404 million (2015: DKK 2,212 million). As communicated on GN’s Capital Market Day I September 2016, GN is targeting to have net interest-bearing debt of one to two times EBITDA. GN Store Nord's long term capital structure policy (net debt up to a maximum of two times EBITDA) remains unchanged. As of December 31, 2016 GN Store Nord had undrawn borrowing facilities of DKK 1,576 million (2015: DKK 2,806 million).

## 4.2 Financial risks and financial instruments (Continued)

GN Store Nord aims to pay out a dividend corresponding to 15-25% of the annual net results and will initiate share buyback programs when deemed appropriate subject to the authorization by the shareholders in Annual General Meeting.

**Financial credit risk**
Surplus cash positions in GN Store Nord's subsidiaries are re-circulated back to the parent company as soon as possible, and cash is mainly held in current accounts or as short-term money market deposits. Cash positions are primarily held with banks through which GN Store Nord conducts its day-to-day banking business and which have a satisfactory rating with Moody's and Standard & Poor's. GN Store Nord has a policy of never having an exposure to a single financial counterparty of more than 2.5% of that party's capital and reserves. GN Store Nord had cash and cash equivalents of DKK 178 million at December 31, 2016 (2015: DKK 132 million).

GN Store Nord has established policies for credit risk management related to customers including the use of credit rating agencies. Assessment of credit risks related to customers is further described in note 3.7 Trade receivables and note 3.4 Other non-current assets.

**Specification of net interest-bearing debt**

| DKK million | Total 2016 | Total 2015 |
|---|---|---|
| Cash and cash equivalents | 178 | 132 |
| Bank loans, non-current liabilities | (3,527) | (2,297) |
| Bank loans, current liabilities | (55) | (47) |
| **Total** | **(3,404)** | **(2,212)** |

**Contractual maturity analysis for financial liabilities**

| DKK million | Less than one year | Between one and five years | More than five years | Total |
|---|---|---|---|---|
| **2016** | | | | |
| Long-term bank loans | 74 | 3,453 | - | 3,527 |
| Other long-term payables | - | 247 | - | 247 |
| Short-term bank loans | 55 | - | - | 55 |
| Trade payables | 642 | - | - | 642 |
| Total non-derivative financial liabilities | 771 | 3,700 | - | 4,471 |
| Derivative financial liabilities | 42 | 38 | - | 80 |
| **Total financial liabilities** | **813** | **3,738** | **-** | **4,551** |
| **2015** | | | | |
| Long-term bank loans | - | 2,074 | 223 | 2,297 |
| Other long-term payables | - | 236 | - | 236 |
| Short-term bank loans | 47 | - | - | 47 |
| Trade payables | 731 | - | - | 731 |
| Total non-derivative financial liabilities | 778 | 2,310 | 223 | 3,311 |
| Derivative financial liabilities | 38 | - | - | 38 |
| **Total financial liabilities** | **816** | **2,310** | **223** | **3,349** |

The maturity analysis is based on non-discounted cash flows excluding interest payments.

## 4.2 Financial risks and financial instruments (Continued)

**Categories of financial assets and liabilities**

The financial assets and liabilities presented in the balance sheet can be grouped in the following categories:

| DKK million | 2016 | 2015 |
|---|---|---|
| Derivative financial instruments included in ownership interests, cf. note 3.4 | 33 | 22 |
| **Financial assets held for trading** | **33** | **22** |
| Ownership interests and RAP, SIP, DCP, cf. note 3.4 | 405 | 401 |
| **Financial assets available-for-sale** | **405** | **401** |
| Trade receivables | 2,183 | 2,255 |
| Other receivables | 231 | 232 |
| Other receivables, non-current | 637 | 805 |
| **Loans and receivables** | **3,051** | **3,292** |
| Bank loans, non-current | 3,527 | 2,297 |
| Other long-term payables | 247 | 236 |
| Bank loans | 55 | 47 |
| Trade payables | 642 | 731 |
| **Financial liabilities measured at amortized cost** | **4,471** | **3,311** |
| Derivative financial instruments included in Other payables | 80 | 38 |
| **Financial liabilities measured at fair value** | **80** | **38** |

For financial assets and liabilities, the fair value is approximately equal to the carrying amount. GN Store Nord's bank loans carry floating interest rates and are primarily funded based short term EURIBOR loan.

**Derivative financial instruments**

**Exchange rate instruments and interest rate swaps**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| DKK million | Contract amount, net | Fair value, assets | Fair value, liabilities | Contract amount, net | Fair value, assets | Fair value, liabilities |
| USD | 1,017 | - | 54 | 1,237 | 4 | 24 |
| JPY | 170 | 5 | 1 | 144 | - | 3 |
| GBP | 234 | 12 | - | 229 | 3 | 1 |
| CAD | 101 | - | 4 | 81 | 4 | - |
| CNY | 136 | - | - | 190 | 2 | 4 |
| EUR* | 5,948 | - | 38 | 3,087 | - | 19 |
| **Total** | **7,606** | **17** | **97** | **4,968** | **13** | **51** |

* Interest rate swaps denominated in EUR.

All exchange rate instruments mature within 12 months from the balance sheet date. The interest rate swaps mature between 3 and 4 years from the balance sheet date.

**Fair value adjustments of cash flow hedges**

| DKK million | 2016 | 2015 |
|---|---|---|
| Fair value adjustment for the year recognized in Other comprehensive income | (39) | (101) |
| Reclassified from equity to revenue during the year | (5) | 191 |
| Reclassified from equity to production costs during the year | 3 | (52) |
| Reclassified from equity to selling and distribution costs during the year | (1) | (8) |
| **Adjustment of cash flow hedges in Other comprehensive income** | **(42)** | **30** |
| Fair value adjustment of cash flow hedges recognized in financial items | - | (13) |

The gains and losses on cash flow hedges recognized in Other comprehensive income as of December 31, 2016 will be recognized in the income statement in the period during which the hedged forecasted transaction affects the income statement.

## 4.2 Financial risks and financial instruments (Continued)

In 2016 net gains on derivative financial instruments related to ownership interests of DKK 87 million were recognized in financial items (2015: DKK 42 million). At the end of 2016 the fair value of the derivative financial instruments related to ownership interests were estimated to DKK 33 million (2015: DKK 22 million).

**Fair value hierarchy**
The fair value of the exchange rate instruments and interest rate swaps are determined using quoted forward exchange rates and forward interest rates, respectively at the balance sheet date and can be categorized as level 2 (observable inputs) in the fair value hierarchy. When measuring the fair value of the derivative financial instruments related to ownership interests, as described below, this is determined by calculating the difference between the fair value of the dispensers and the agreed purchase price of the dispensers. The fair value of the dispensers are determined using cash flow projections from financial forecasts covering a five year period. The key inputs used are sales growth in units, average selling prices and expected growth in the terminal period. The fair value is sensitive to the assumed values of these key inputs and can be categorized as level 3 (unobservable inputs) in the fair value hierarchy.

### § Accounting policies

**Derivative Financial Instruments**
Derivative financial instruments are initially and subsequently recognized in the balance sheet at fair value, except for derivative financial instruments related to ownership interests in dispensers of GN Hearing products. Such instruments are only measured at fair value when exercise is considered highly probably and sufficient information for a fair value measurement is available. In other instances, the cost of the derivative financial instruments related to unquoted ownership interests is considered the best estimate of the fair value. Positive and negative fair values of derivative financial instruments are recognized as other receivables and payables, respectively, and set-off of positive and negative values is only made when GN Store Nord has the right and the intention to settle several financial instruments net. Fair values of derivative financial instruments are computed on the basis of market data and generally accepted valuation methods.
Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognized asset or liability are recognized in the income statement together with changes in the value of the hedged asset or liability as far as the hedged portion is concerned. Changes in the portion of the fair value of derivative financial instruments designated as and qualifying as a cash flow hedge that is an effective hedge of changes in the value of the hedged item are recognized in other comprehensive income. If the hedged transaction results in gains or losses, amounts previously recognized in other comprehensive income are transferred from equity to the same item as the hedged item.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognized in the income statement under financial items.

**Financial Liabilities**
Amounts owed to credit institutions, finance lessors and banks are recognized at the date of borrowing at fair value of the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, corresponding to the capitalized value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the income statement over the term of the loan.

Other liabilities, comprising trade payables, amounts owed to group enterprises and associates as well as other payables, are measured at amortized cost

## 4.3 Financial income and expenses

| DKK million | 2016 | 2015 |
|---|---|---|
| **Financial Income:** | | |
| Interest income* | 26 | 34 |
| Financial income, other | 29 | 14 |
| Fair value adjustments of derivative financial instruments | 87 | 42 |
| Foreign exchange gain | 42 | 7 |
| **Total** | **184** | **97** |
| **Financial expenses:** | | |
| Interest expenses* | (59) | (57) |
| Financial expenses, other | (81) | (38) |
| Fair value adjustments of derivative financial instruments and impairments | (75) | (105) |
| Foreign exchange loss, net | (21) | (35) |
| **Total** | **(236)** | **(235)** |

*Interest income and expenses from financial assets and liabilities at amortized cost.

GN Store Nord has not included borrowing costs in the cost price of non-current assets as these are not financed with debt.

Fair value adjustments of derivative financial instruments and impairments include an impairment loss of DKK 75 million related to Loans to dispensers of GN Hearing products and ownership interests (2015: DKK 92 million).

### § Accounting policies

**Financial Income and Expenses**

Financial income and expenses comprise interest income and expense, costs of permanent loan facilities, gains and losses on securities, receivables, payables and transactions denominated in foreign currencies, credit card fees, amortization and impairment of financial assets and liabilities, etc. Also included are realized and unrealized gains and losses on derivative financial instruments that are not designated as hedges.

Borrowing costs that are directly attributable to the construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognized as an expense. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use

# Section 5
# Other disclosures

## 5.1 Acquisition and divestment of companies and operations

**Acquisitions**
In July 2016, GN Hearing acquired 100% of the US based company Audigy, a leading provider of business and performance management solutions to independent hearing care practices. The acquisition of Audigy will further support GN Hearing's strong momentum allowing GN Hearing to be an even better partner to its customers. The goodwill related to the acquisition of Audigy is mainly attributable to Audigy's business and performance management solutions to independent hearing care professionals and the expected synergy effects from applying these in other parts of GN Hearing as well as a strengthening of the sales and distribution channels.

During 2016, GN Hearing furthermore acquired a number of minor hearing instrument chains and distributors, primarily in the US. These acquisitions all strengthen GN Hearing's sales and distribution channels and the goodwill related to the acquisitions are mainly attributable to this.

On October 13, 2016 GN Audio acquired the US based company VXi Corporation. VXi is a leading innovative US based manufacturer of professional headset solutions. VXi's products are marketed under the VXi and BlueParrot brands. The acquisition of VXi will further strengthen GN Audio's presence and market share in the important North American market as well as enable access to new attractive segments, among other leveraging VXi's best-in-class expertise within communication in high noise environments. The goodwill related to the acquisition is mainly related to this market share gain.

| | Fair value at acquisition date | | | | |
|---|---|---|---|---|---|
| DKK million | Audigy | VXi | Other | 2016 | 2015 |
| **Identifiable assets acquired and liabilities assumed and consideration transferred** | | | | | |
| Non-current assets | 22 | 10 | 7 | 39 | 3 |
| Current assets | 47 | 40 | 1 | 88 | 6 |
| Non-current liabilities | (14) | (12) | (18) | (44) | (2) |
| Current liabilities | (57) | (99) | - | (156) | (11) |
| **Fair value of identified net assets** | **(2)** | **(61)** | **(10)** | **(73)** | **(4)** |
| Goodwill | 614 | 124 | 50 | 788 | 34 |
| Other intangible assets | 146 | 120 | 208 | 474 | 43 |
| **Consideration transferred** | **758** | **183** | **248** | **1,189** | **73** |
| Fair value of assets transferred | - | - | (175) | (175) | (41) |
| Contingent consideration | (158) | - | (1) | (159) | (5) |
| **Cash consideration paid** | **600** | **183** | **72** | **855** | **27** |

The goodwill related to the acquisition of VXi is allocated to the CGU Contact Center & Office Headsets with DKK 124 million. Goodwill relating to the acquisition of Audigy and other minor transactions is allocated to the cash-generating unit Hearing Instruments with DKK 664 million (2015: DKK 10 million). Transaction costs of DKK 22 million were recognized and included in operating expenses during 2016.

In 2016, GN Hearing paid out DKK 25 million (2015: DKK 20 million) in contingent considerations related to prior years acquisitions. The payments were mainly related to the acquisition of Dansk HøreCenter ApS. No adjustment has been recognized in the income statement.

The recognition of the fair value of identified net assets is based on available information at the acquisition date. In the event of new information, the recognition is subject to change within a one-year measurement period.

## 5.1 Acquisition and divestment of companies and operations (Continued)

| DKK million | 2016 | 2015 |
|---|---|---|
| **The share of revenue and profit (loss) for the year from the acquisition date can be specified as follows:** | | |
| Revenue | 310 | 27 |
| EBIT | 12 | 2 |
| Profit (loss) for the year | 6 | - |
| Acquired operations if they had been owned throughout the year: | | |
| Revenue | 630 | 31 |
| EBIT | 38 | 2 |
| Profit (loss) for the year | 27 | - |

**Divestments etc.**
In 2016 GN Hearing divested a number of minor hearing instrument distributors primarily in the US. Other adjustments relate to a legal dispute.

| DKK million | 2016 | 2015 |
|---|---|---|
| Non-current assets | (3) | (4) |
| Current assets | (2) | - |
| **Disposed net assets** | **(5)** | **(4)** |
| Fair value of assets received | 2 | 6 |
| **Gain (loss) on divestment of operations** | **(3)** | **2** |
| Other adjustments | (26) | (12) |
| **Gain (loss) on divestment of operations etc.** | **(29)** | **(10)** |

### § Accounting policies

**Business Combinations**
Enterprises acquired or formed during the year are recognized in the consolidated financial statements from the date of acquisition or formation. The acquisition date is the date when the parent company effectively obtains control of the acquired enterprise. Enterprises disposed of are recognized in the consolidated income statement until the disposal date. The comparative figures are not restated for acquisitions.
For acquisitions of new enterprises in which the parent company is able to exercise control over the acquired enterprise, the purchase method is used. The acquired enterprises' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognized if they are separable or arise from a contractual right. Deferred tax on revaluations is recognized. Any excess of the cost over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognized as goodwill under intangible assets. Goodwill is not amortized but is tested at least annually for impairment. The first impairment test is performed within the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for the impairment test. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with another functional currency than the presentation currency used by GN Store Nord are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.

The cost of a business combination comprises the fair value of the consideration agreed upon. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of that adjustment is included in the cost of the combination if the adjustment is probable and can be measured in a reliable manner. Subsequent changes to contingent considerations are recognized in the income statement. If uncertainties regarding measurement of identifiable assets, liabilities and contingent liabilities exist at the acquisition date, initial recognition will take place on the basis of preliminary fair values. If identifiable assets, liabilities and contingent liabilities are subsequently determined to have different fair value at the acquisition date than first assumed, goodwill is adjusted up until twelve months after the acquisition. The effect of the adjustments is recognized in the opening balance of equity and the comparative figures are restated accordingly

## 5.1 Acquisition and divestment of companies and operations (Continued)

When acquiring a controlling interest in steps, GN Store Nord assesses the fair value of the acquired net assets at the time control is obtained. At such time, interests acquired previously are also adjusted to fair value. The difference between the fair value and the carrying amount is recognized in the income statement.

Acquisition of additional equity interest after a business combination is not accounted for using the acquisition method, but rather as equity transactions. Disposals of equity interest while retaining control are also accounted for as equity transactions. Transactions resulting in a loss of control result in a gain or loss being recognized in the income statement.

When acquiring less than 100% of the shares in a company, GN Store Nord recognizes the goodwill on a transaction-by-transaction basis or as a proportion of goodwill in accordance with GN Store Nord's ownership interest.

## 5.2 Discontinued operations

On September 25, 2016 GN Hearing and Natus Medical Incorporated (hereafter "Natus") entered into an agreement whereby ownership of GN Otometrics is transferred from GN Hearing to Natus. The divestment will further strengthen GN Hearing's focus and strategic direction as a dedicated hearing instrument company, with GN Hearing being in a unique position to continue to deliver industry leading growth and profitability. The total consideration payable by Natus is USD 145 million and will be settled in cash on a debt and cash free basis. Closing of the transaction took place on January 3, 2017.

Since September 30, 2016 GN Otometrics has been classified as a disposal group held for sale and as discontinued operations. The results of GN Otometrics for 2016 and 2015 are presented below. The expenses in GN Otometrics in 2016 include transaction-related costs and impairments of software.

| DKK million | 2016 | 2015 |
|---|---|---|
| **GN Otometrics** | | |
| Revenue | 686 | 649 |
| Expenses | (749) | (573) |
| **Profit/(loss) before tax from discontinued operations** | **(63)** | **76** |
| Tax | 10 | (18) |
| **Profit/(loss) for the period from discontinued operations** | **(53)** | **58** |

The major classes of assets and liabilities of GN Otometrics classified as held for sale as at December 31, 2016 are as follows:

| | | |
|---|---|---|
| **Assets** | | |
| Intangible assets | 495 | |
| Property, plant & equipment | 22 | |
| Receivables | 231 | |
| Inventories | 144 | |
| Cash and cash equivalents | 29 | |
| **Assets held for sale** | **921** | |
| **Liabilities** | | |
| Payables | 142 | |
| Deferred tax | 67 | |
| Interest-bearing liabilities | 2 | |
| **Liabilities directly associated with assets held for sale** | **211** | |
| The net cash flows generated/(incurred) by GN Otometrics are, as follows: | | |
| Operating | 66 | 116 |
| Investing | (126) | 3 |
| Financing | 75 | (136) |
| **Net cash flow** | **15** | **(17)** |
| **Earnings per share (EPS) from discontinued operations** | | |
| Earnings per share (EPS) from discontinued operations | (0.36) | 0.37 |
| Earnings per share from discontinued operations, fully diluted (EPS diluted) | (0.36) | 0.37 |

## 5.2 Discontinued operations (Continued)

### § Accounting policies

**Discontinued operations**

Assets and liabilities classified as held for sale are presented separately as items in the balance sheet. A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the income statement.

## 5.3 Remuneration of the Board of Directors and Executive Management

Executive Management remuneration can be specified as follows:

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| DKK million | Fixed salary | Bonus | Share-based payments | Total | Fixed salary | Bonus | Share-based payments | Total |
| Anders Hedegaard, CEO of GN Hearing | (6.2) | (5.1) | (2.1) | (13.4) | (5.9) | (5.1) | (1.1) | (12.1) |
| René Svendsen-Tune, CEO of GN Audio from April 1, 2015 | (5.7) | (3.3) | (1.4) | (10.4) | (4.3) | (2.1) | (0.6) | (7.0) |
| Niels Svenningsen, CEO of GN Audio until March 31, 2015 | - | - | - | - | (1.2) | (1.6) | (0.2) | (3.0) |
| Marcus Desimoni, CFO of GN Store Nord from February 15, 2016 | (5.4) | (2.6) | (1.0) | (9.0) | - | - | - | - |
| Anders Boyer, CFO of GN Store Nord until February 14, 2016 | (0.6) | (0.5) | - | (1.1) | (4.4) | (3.3) | 1.2 | (6.5) |
| **Total** | **(17.9)** | **(11.5)** | **(4.5)** | **(33.9)** | **(15.8)** | **(12.1)** | **(0.7)** | **(28.6)** |

| DKK million | 2016 | 2015 |
|---|---|---|
| Other key management personnel remuneration: | | |
| Fixed salary | (3.3) | (5.2) |
| Bonus | (0.4) | (0.5) |
| Share-based payments | (0.1) | (1.5) |
| **Total** | **(3.8)** | **(7.2)** |

**Incentive plans**

The Group's share-based incentive plans are specified and described in note 5.4.

**Executive Management and Board of Directors Remuneration**

The total remuneration of the Executive Management is based on the “General Guidelines for Incentive Pay to Management”, as adopted at GN´s Annual General Meeting. Total salary (Fixed salary & Bonus) of the Executive Management increased by 5% or DKK 1.5 million from 2015 to 2016. The change of CFO in GN Store Nord as of February 15, 2016 is reflected in these numbers with remuneration to the former CFO Anders Boyer for the first 1.5 months of 2016 and remuneration to the current CFO Marcus Desimoni for the remaining 10.5 months of 2016, including a sign-on bonus of DKK 1.9 million to the CFO of GN Store Nord Marcus Desimoni.

Remuneration of the Executive Management is based on a fixed base salary plus a target bonus of 50% of the base salary with a potential to underperform or outperform the target leading to an effective potential bonus range of 0 - 100% of the base salary. The Executive Management´s bonus is based on three parameters in light of the Group's focus areas. Anders Hedegaard’s and Marcus Desimoni's bonuses are subject to the performance of GN Hearing’s EBITA, GN Hearing’s revenue and individual performance targets. René Svendsen-Tune’s bonus is subject to the performance of GN Audio’s EBITA, GN Audio’s revenue and individual performance targets.

## 5.3 Remuneration of the Board of Directors and Executive Management (Continued)

The Group does not make pension contributions in respect of members of the Executive Management. Executive Management has severance agreements and change-of-control agreements on market terms.

In 2016 Other key management personnel remuneration includes remuneration of DKK 0.9 million to the former CFO of GN Store Nord Anders Boyer during the transition period starting February 15, 2016.

Members of the Board of Directors receive a fixed remuneration as approved by the shareholders at the Annual General Meeting on March 10, 2016. The fixed remuneration is based on GN Store Nord´s corporate governance structure in which an audit committee, a strategy committee, a remuneration committee and a nomination committee have been established. Further, the appointed board members of GN Store Nord also serve on the Board of Directors of GN Hearing A/S and GN Audio A/S.

| **GN Store Nord A/S** | |
|---|---|
| Chairman | 750 |
| Deputy Chairman | 500 |
| Other Board members | 250 |
| Remuneration Committee Chairman | 300 |
| Remuneration Committee, other members | 150 |
| Audit Committee Chairman | 300 |
| Audit Committee, other members | 150 |
| Strategy Commitee Chairman | 300 |
| Strategy Commitee other members | 150 |
| Nomination Commitee Chairman | 150 |
| Nomination Commitee other members | 75 |

| **GN Hearing A/S** | |
|---|---|
| Chairman | 250 |
| Deputy Chairman | 175 |
| Other Board members | 100 |

| **GN Audio A/S** | |
|---|---|
| Chairman | 250 |
| Deputy Chairman | 175 |
| Other Board members | 100 |

| DKK thousand | 2016 | 2015 |
|---|---|---|
| Per Wold-Olsen (Chairman) | 1,850 | 1,850 |
| William E. Hoover, Jr. (Deputy chairman) | 1,225 | 1,225 |
| Wolfgang Reim | 900 | 900 |
| Carsten Krogsgaard Thomsen | 750 | 750 |
| Helene Barnekow | 600 | 600 |
| Ronica Wang | 600 | 450 |
| René Svendsen-Tune (until March 2015) | - | 150 |
| Leo Larsen | 250 | 250 |
| Morten Andersen | 250 | 250 |
| Nikolai Bisgaard | 250 | 250 |
| **Total Board of Directors remuneration** | **6,675** | **6,675** |

In addition to the remuneration, members of the Board of Directors who are not Danish residents are entitled to a fixed travel allowance in connection with participation in board meetings in Denmark. For European-based board members the allowance amounts to DKK 22 thousand per meeting and for Non-European based board members the allowance amounts to DKK 45 thousand per meeting. In 2016, a company owned by a member of the Board of Directors received a fee of DKK 4.7 million for consultancy work related to a specific project (2015: DKK 3.2 million)

## 5.4 Incentive plans

**Warrants programs**

GN Store Nord has warrant-based long-term incentive programs whereby the Executive Management and other senior employees are granted warrants, entitling the holder to subscribe shares in GN Hearing or GN Audio.

Warrants granted will vest the day after the release of GN Store Nord's annual report in the third year after the grant. Vested warrants may be exercised during a four-week period opening each quarter of each of the third, fourth and fifth year after allocation. The quarterly four-week window will open following the release of a Valuation Report concerning the value of the shares of GN Hearing and GN Audio. Warrants vest provided the share value of GN Store Nord has increased and that the share value of GN Hearing and GN Audio has outperformed a peer group index of competitors and industry segment indicators as defined by the Board of Directors of GN Hearing and GN Audio, respectively by a certain percentage during the same time period. Warrants are granted at no consideration.

The exercise price for the warrants is based on the average share price for GN Store Nord in the five days following the release of the annual report in the year in which the relevant warrants are allocated.

**Warrants program, GN Hearing**

| | Executive Management | Other employees | Total | Average exercise price |
|---|---|---|---|---|
| **Warrants granted at January 1, 2015** | **1,215** | **12,848** | **14,063** | **17,550** |
| Warrants granted during the year | 1,014 | 4,280 | 5,294 | 26,551 |
| Warrants exercised during the year | (217) | (3,319) | (3,536) | 10,875 |
| Warrants forfeited during the year/corrections | (1,083) | (1,205) | (2,288) | 22,961 |
| **Outstanding warrants at December 31, 2015** | **929** | **12,604** | **13,533** | **21,901** |
| Warrants granted during the year | 1,276 | 4,908 | 6,184 | 26,945 |
| Warrants exercised during the year | - | (2,875) | (2,875) | 16,045 |
| Warrants forfeited during the year/corrections | - | (1,892) | (1,892) | 25,569 |
| **Outstanding warrants at December 31, 2016** | **2,205** | **12,745** | **14,950** | **24,649** |
| Grant date market value of warrants granted in 2016 | 5 | 18 | 23 | |
| Market value of outstanding warrants at December 31, 2016 | 8 | 66 | 74 | |

Average share price at exercise: DKK 26,453 (2015: DKK 26,705)

Outstanding warrants in GN Hearing by grant date are shown below.

| Grant date | Executive Management | Other employees | Total | % of GN Hearing A/S | Number of exercisable warrants | Exercise price | Years to expiry | Market value in DKK million |
|---|---|---|---|---|---|---|---|---|
| March 2012 | - | 923 | 923 | 0.1% | 923 | 11,084 | 0.8 | 16 |
| March 2013 | - | 1,677 | 1,677 | 0.3% | 1,677 | 19,270 | 1.8 | 16 |
| November 2013 | - | 80 | 80 | 0.0% | 80 | 24,290 | 1.8 | 1 |
| March 2014 | - | 2,753 | 2,753 | 0.4% | - | 24,711 | 2.8 | 8 |
| July 2014 | 235 | - | 235 | 0.0% | - | 30,064 | 2.8 | - |
| March 2015 | 694 | 2,901 | 3,595 | 0.6% | - | 26,729 | 3.8 | 11 |
| August 2015 | - | 50 | 50 | 0.0% | - | 23,807 | 3.8 | - |
| November 2015 | - | 125 | 125 | 0.0% | - | 24,896 | 3.8 | 1 |
| March 2016 | 1,276 | 3,957 | 5,233 | 0.8% | - | 26,936 | 4.8 | 20 |
| August 2016 | - | 68 | 68 | 0.0% | - | 27,797 | 4.8 | - |
| November 2016 | - | 211 | 211 | 0.0% | - | 26,932 | 4.8 | 1 |
| **Outstanding warrants at December 31, 2016** | **2,205** | **12,745** | **14,950** | **2.2%** | **2,680** | | | **74** |

## 5.4 Incentive plans (Continued)

**Warrants program, GN Audio**

| | Executive Management | Other employees | Total | Average exercise price |
|---|---|---|---|---|
| **Warrants granted at January 1, 2015** | **702** | **6,634** | **7,336** | **17,884** |
| Warrants granted during the year | 627 | 2,328 | 2,955 | 30,600 |
| Warrants exercised during the year | (69) | (2,314) | (2,383) | 11,104 |
| Warrants forfeited during the year/corrections | (722) | 188 | (534) | 26,379 |
| **Outstanding warrants at December 31, 2015** | **538** | **6,836** | **7,374** | **24,555** |
| Warrants granted during the year | 1,192 | 2,875 | 4,067 | 22,507 |
| Warrants exercised during the year | - | (1,201) | (1,201) | 17,211 |
| Warrants forfeited during the year/corrections | - | (533) | (533) | 25,596 |
| **Outstanding warrants at December 31, 2016** | **1,730** | **7,977** | **9,707** | **24,549** |
| Grant date market value of warrants granted in 2016 | 4 | 10 | 14 | |
| Market value of outstanding warrants at December 31, 2016 | 6 | 25 | 31 | |

Average share price at exercise: DKK 22,204 (2015: DKK 30,578)

Outstanding warrants in GN Audio by grant date are shown below.

| Grant date | Executive Management | Other employees | Total | % of GN Audio A/S | Number of exercisable warrants | Exercise price | Years to expiry | Market value in DKK million |
|---|---|---|---|---|---|---|---|---|
| March 2012 | - | 124 | 124 | 0.0% | 124 | 11,234 | 0.8 | 2 |
| March 2013 | - | 837 | 837 | 0.2% | 837 | 17,797 | 1.8 | 7 |
| November 2013 | - | 132 | 132 | 0.0% | 132 | 23,652 | 1.8 | - |
| March 2014 | - | 2,127 | 2,127 | 0.6% | - | 24,596 | 2.8 | 2 |
| July 2014 | - | 13 | 13 | 0.0% | - | 28,473 | 2.8 | - |
| December 2014 | - | 58 | 58 | 0.0% | - | 26,178 | 2.8 | - |
| March 2015 | 538 | 1,967 | 2,505 | 0.7% | - | 30,600 | 3.8 | 4 |
| March 2016 | 1,192 | 2,661 | 3,853 | 1.1% | - | 22,495 | 4.8 | 16 |
| August 2016 | - | 58 | 58 | 0.0% | - | 23,308 | 4.8 | - |
| **Outstanding warrants at December 31, 2016** | **1,730** | **7,977** | **9,707** | **2.6%** | **1,093** | | | **31** |

The market value of the warrants has been calculated using the principles of the Black & Scholes pricing model. The market value of the outstanding warrants at the balance sheet date is calculated on the basis of underlying market prices on the final business day of the year, whereas the market value of warrants granted during the year is based on the underlying market prices at the grant date. The following assumptions were applied for the calculation of the market value at the balance sheet date and at the grant date of warrants:

## 5.4 Incentive plans (Continued)

**Market conditions**

| | 2016 year end | | Grant date 2016 | | 2015 year end | | Grant date 2015 | |
|---|---|---|---|---|---|---|---|---|
| | GN Hearing | GN Audio | GN Hearing | GN Audio | GN Hearing | GN Audio | GN Hearing | GN Audio |
| Share price GN Store Nord | 146 | 146 | 134<br>142<br>137 | 134<br>142 | 123 | 123 | 151<br>124<br>127 | 151 |
| Share of GN Store Nord market value | 86% | 40% | 85%<br>84%<br>86% | 38%<br>38% | 81% | 39% | 70%<br>78%<br>80% | 43% |
| Share price | 28,471 | 24,674 | 26,936<br>27,797<br>26,932 | 22,495<br>23,308 | 23,968 | 21,399 | 26,729<br>23,807<br>24,896 | 30,600 |
| Volatility | 20% | 30% | 22%<br>22%<br>21% | 27%<br>29% | 24% | 23% | 23%<br>24%<br>25% | 24% |
| Dividend per share | - | - | - | | - | - | - | - |
| Risk-free interest rate | 0.00% | 0.00% | 0.00%<br>(0.40)%<br>(0.20)% | 0.00%<br>(0.40)% | 0.00% | 0.00% | 0.00%<br>0.08%<br>0.18% | 0.00% |
| Expected term (years) | 0.8<br>1.8<br>2.8<br>3.8<br>4.8 | 0.8<br>1.8<br>2.8<br>3.8<br>4.8 | 5.7<br>5.2<br>5.0 | 5.7 | 0.8<br>1.8<br>2.8<br>3.8<br>4.8 | 0.8<br>1.8<br>2.8<br>3.8<br>4.8 | 5.7<br>5.2<br>5.0 | 5.7 |

In the calculation of market value, the share of market value and volatility is estimated by external experts.

### § Accounting policies

**Incentive plans**

The Executive Management and a number of key employees are included in share-based payment plans (equity-settled plans). For equity-settled programs, the warrants are measured at the fair value at the grant date and recognized in the income statement as a staff cost of the respective functions over the vesting period. The counter item is recognized in equity. On initial recognition, an estimate is made of the number of warrants expected to vest. This estimate is subsequently revised for changes in the number of warrants expected to vest. Accordingly, recognition is based on the number of warrants that are ultimately vested. The fair value of granted warrants is estimated using the Black-Scholes option pricing model. Vesting conditions are taken into account when estimating the fair value of the warrants

## 5.5 Pension obligations

| DKK million | 2016 | 2015 |
|---|---|---|
| Present value of defined benefit obligations | (366) | (345) |
| Fair value of plan assets | 300 | 281 |
| **Net obligations** | **(66)** | **(64)** |

The present value of defined benefit obligations includes unfunded pension obligations not covered by payments to insurance company of DKK 17 million in 2016 (2015: DKK 14 million).

| | 2016 | 2015 |
|---|---|---|
| **Development in present value of defined benefit obligations** | | |
| Obligations at January 1 | (345) | (339) |
| Foreign exchange adjustments | (12) | (33) |
| Costs for the year | (4) | (3) |
| Interest expense | (13) | (13) |
| Actuarial gains (losses) regarding demographic assumptions | 5 | 14 |
| Actuarial gains (losses) regarding financial assumptions | (17) | 12 |
| Discontinued operations | 2 | - |
| Pension payments, unfunded | 1 | 1 |
| Pension payments | 17 | 16 |
| **Obligations at December 31** | **(366)** | **(345)** |
| **Maturity of pension obligations** | | |
| Less than one year | (18) | (17) |
| Between one and five years | (77) | (73) |
| More than five years | (271) | (255) |
| **Total** | **(366)** | **(345)** |
| **Development in fair value of plan assets** | | |
| Plan assets at January 1 | 281 | 262 |
| Foreign exchange adjustments | 9 | 26 |
| Interest income | 11 | 9 |
| Return on plan assets in excess of interest income | 7 | (12) |
| Payment by GN Store Nord | 9 | 12 |
| Pension payments | (17) | (16) |
| **Plan assets at December 31** | **300** | **281** |
| **Pension costs recognized in the income statement** | | |
| Costs for the year | (4) | (3) |
| Interest expense | (13) | (13) |
| Interest income from plan assets | 11 | 9 |
| Defined benefit plans total | (6) | (7) |
| Defined contribution plans total | (89) | (88) |
| **Total pension costs recognized in the income statement** | **(95)** | **(95)** |
| **The costs are recognized in the following income statement items:** | | |
| Production costs | (12) | (16) |
| Development costs | (22) | (20) |
| Selling and distribution costs | (33) | (31) |
| Management and administrative expenses | (26) | (25) |
| Financial expenses | (2) | (3) |
| **Total** | **(95)** | **(95)** |
| **The following accumulated actuarial gains (losses) since January 1, 2005 are recognized in the Statement of other Comprehensive Income:** | | |
| Accumulated actuarial gains (losses) | (80) | (75) |
| **Breakdown of plan assets:** | | |
| Shares | 61% | 64% |
| Bonds | 36% | 35% |
| Cash and cash equivalents | 3% | 1% |
| **Total** | **100%** | **100%** |

## 5.5 Pension obligations (Continued)

At the balance sheet date the actuarial calculations for the prevailing American defined benefit plan are based on a discount rate of 4% (2015: 4.25%).

A 25 basis point decrease in the discount rate will result in a DKK 9 million increase in the defined benefit obligation and a 25 basis point increase will result in a DKK 8 million decrease in the defined benefit obligation.

**Defined contribution plans**
The Group has pension commitments regarding certain groups of employees in Denmark and abroad. Pension plans are generally defined contribution plans. The pension plans are funded by current payments to independent pension funds and insurance companies, which are responsible for payment of the pension benefits. When contributions to defined contribution plans have been paid, the Group has no further commitments to present or former employees. Contributions to defined contribution plans are recognized in the income statement when they are due.

**Defined benefit plans**
The Group has an American pension plan, which is not covered by payments to insurance companies but is partly off-set by the fair value of reserved pension funds. At July 1, 2003, the pension plan was frozen, meaning that employees covered by the plan will continue to be entitled to the pension payments earned up to this date. However, employees will not earn further pension payments.

**Other plans**
The Group has no other pension obligations or similar obligations to its employees.

### § Accounting policies

**Pensions**
Contributions to defined contribution plans are recognized in the income statement in the period to which they relate and any contributions outstanding are recognized in the balance sheet as other payables.

Defined benefit plans are subject to an annual actuarial estimate of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension obligations. Pension costs for the year are recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in plan assets and the defined benefit obligation and actual amounts results in actuarial gains or losses. Actuarial gains or losses are recognized in other comprehensive income

## 5.6 Contingent liabilities, other financial liabilities and contingent assets

| DKK million | 2016 | 2015 |
|---|---|---|
| **Guarantees, warranties and other liabilities** | **15** | **9** |

**Contingent liabilities**
***Outstanding lawsuits***
GN Store Nord and its subsidiaries and associates are parties to various lawsuits, including various cases involving patent infringements. Apart from the cases described below, the outcome of cases pending is not expected to be of material importance to the Group's financial position.

**Other financial liabilities**
***Security***
The Group has not pledged any assets as security in the present or prior financial years.

## 5.6 Contingent liabilities, other financial liabilities and contingent assets (Continued)

***Purchase obligations***
GN Store Nord has agreed with a number of suppliers that the suppliers will purchase components for the production of hearing instruments, headsets and audiologic diagnostics equipment based on sales estimates prepared by GN Store Nord. To the extent that GN Store Nord's sales estimates exceed actual purchases from suppliers, GN Store Nord is under an obligation to purchase any remaining components from the suppliers. Management assesses sales estimates on an ongoing basis. To the extent that component inventories at suppliers exceed the volumes expected to be used, GN Store Nord recognizes a provision for onerous purchase contracts.

**Contingent assets**
***Claim against Plantronics Inc.***
In 2012, GN Audio filed suit against Plantronics for attempted monopolization of the distributors' market in the US. On September 23, 2013, the federal district court in Wilmington, Delaware, dismissed Plantronics' "motion to dismiss" the case in its entirety. The court also stated that GN Audio's allegations were sufficiently substantiated to allow the case to proceed into discovery. During the discovery phase, GN learned of alleged intentional document destruction. A hearing on the matter was held on May 18, 2016, and on July 6, 2016, the Court issued a sanctions motion ordering Plantronics to pay USD 3 million to GN Audio in punitive damages as well as reasonable fees and costs incurred in connection with the discovery dispute. Further, the Court reserved the right to issue additional evidentiary sanctions and it will instruct the jury that it may draw an adverse inference that emails destroyed by Plantronics would have been favorable to GN Audio's case and/or unfavorable to Plantronics' defense. The court has set the jury trial for October 10, 2017.

Apart from the above, management is not aware of any matter that could be of material importance to the Group's financial position.

### Significant accounting estimates

**Provisions, Contingencies and Lawsuits**
GN Store Nord's Management assesses provisions, contingent assets and contingent liabilities and the likely outcome of pending or threatened lawsuits on an ongoing basis. The outcome depends on future events that are by nature uncertain. In assessing the likely outcome of lawsuits and tax disputes, etc., Management bases its assessment on external legal assistance and decided cases

## 5.7 Associates

**Investments in associates**

| DKK million | 2016 | 2015 |
|---|---|---|
| **Aggregated financial information for associates is provided below:** | | |
| Revenue | 119 | 112 |
| Profit (loss) for the year after tax | 6 | 9 |
| Total assets | 97 | 122 |
| Total liabilities | 48 | 175 |
| | | |
| Total share of profit (loss) for the year after tax | 2 | 5 |
| Total share of net assets | 15 | 14 |

Transactions with associates comprise sale of goods of DKK 61 million (2015: DKK 56 million) and sale of services of DKK 22 million (2015: DKK 20 million) on normal commercial terms and conditions.

Group companies are listed on page 93.

### Accounting policies

**Investments in Associates in the Consolidated Financial Statements**
On acquisition of investments in associates, the purchase method is used, cf. Business Combinations.
In the consolidated financial statements investments in associates are recognized according to the equity method. Investments in associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus the proportionate share of unrealized intra-group profits and losses and plus the carrying amount of goodwill

## 5.7 Associates (Continued)

**Profit (Loss) from Investments in Associates**
The proportionate share of the profit (loss) after tax of the individual associates is recognized in the income statement of the Group after elimination of the proportionate share of intra-group profits (losses).

## 5.8 Other non-cash adjustments and reconciliation of cash and cash equivalents

| DKK million | 2016 | 2015 |
|---|---|---|
| Share-based payment (granted) | 22 | 19 |
| (Gain) loss on divestment of operations | 3 | 10 |
| Provision for bad debt, inventory write-downs, etc. | 18 | (24) |
| Beltone Network non-recurring items | - | 150 |
| Adjustment of provisions | (42) | (28) |
| **Total** | **1** | **127** |

**Reconciliation of cash and cash equivalents, end of period**

| DKK million | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents, continuing operations | 178 | 132 |
| Cash and cash equivalents, discontinued operations | 29 | - |
| **Total** | **207** | **132** |

## 5.9 Lease obligations

| DKK million | 2016 | 2015 |
|---|---|---|
| Future lease obligations are distributed as follows: | | |
| **Operating leases:** | | |
| Less than one year | 132 | 118 |
| Between one and five years | 241 | 187 |
| More than five years | 89 | 107 |
| **Total** | **462** | **412** |

Operating leases primarily relate to lease of property on market terms in Denmark, the United States and the United Kingdom. The remaining lease terms are between one and fifteen years.

Operating leases include rental obligations related to properties in Denmark in the amount of DKK 9 million (2015: DKK 11 million). DKK 1 million (2015: DKK 1 million) of the rental obligation in Denmark is provided for in the balance sheet in connection with vacating the premises.

Lease payments recognized in the income statement relating to operating leases amount to DKK 140 million (2015: DKK 112 million).

### § Accounting policies

**Rental and Lease Matters**

Leases that do not meet the criteria for classification as a financial asset are treated as operating leases. Operating lease payments are recognized in the income statement over the term of the lease

## 5.10 Fees to auditors appointed at the annual general meeting

| DKK million | 2016 | 2015 |
|---|---|---|
| Audit fees | (6) | (5) |
| **Total** | **(6)** | **(5)** |
| Other assistance: | | |
| Other assurance related services | (6) | (5) |
| Tax assistance and advice | (2) | (4) |
| **Total** | **(8)** | **(9)** |
| **Total** | **(14)** | **(14)** |

Consolidated audit fees include DKK 3 million (2015: DKK 2 million) to Ernst & Young P/S. Consolidated other assistance includes DKK 6 million (2015: DKK 2 million) to Ernst & Young P/S.

## 5.11 Events after the reporting period

As described in the Management's report GN Otometrics has been divested in January 2017. The gain/loss resulting from the divestment has not yet been determined, but will be recognized in discontinued operations in 2017.

# Companies in GN Store Nord

| | Domicile | Currency | Ownership % | Share capital |
|---|---|---|---|---|
| **GN Store Nord A/S** | Denmark | DKK | N/A | 693.316.148 |
| GN Ejendomme A/S | Denmark | DKK | 100 | 10.600.000 |
| **GN Audio A/S** | Denmark | DKK | 100 | 33.394.000 |
| GN Netcom, Inc. | USA | USD | 100 | 35.900.000 |
| VXI Corporation | USA | USD | 100 | 100 |
| GN Netcom (Canada), Inc. | Canada | CAD | 100 | 1.000 |
| GN Communications, Equipamentos e Solucoes de Comunicacao Ltda. | Brazil | BRL | 100 | 407.820 |
| GN Netcom (China) Ltd. | China | USD | 100 | 8.000.000 |
| GN Netcom Logistic (Xiamen) Ltd. | China | USD | 100 | 500.000 |
| GN Communications (Shanghai) Co., Ltd | China | CNY | 100 | 15.481.000 |
| GN Netcom (Japan) Ltd. | Japan | JPY | 100 | 10.000.000 |
| GN Netcom (Singapore) Pte Ltd. | Singapore | SGD | 100 | 700.000 |
| GN Netcom Asia Ltd. | Hong Kong | HKD | 100 | 2.000.000 |
| GN Netcom Australia Pty. Ltd. | Australia | AUD | 100 | 2.500.000 |
| GN Netcom (Spain) S.A. | Spain | EUR | 100 | 60.111 |
| GN Netcom (Italia) S.r.l. | Italy | EUR | 100 | 10.200 |
| GN Netcom (UK) Ltd. | Great Britain | GBP | 100 | 100.000 |
| GN Netcom AB | Sweden | SEK | 100 | 5.100.000 |
| GN Netcom Benelux B.V. | Netherlands | EUR | 100 | 18.000 |
| GN Netcom GmbH | Germany | EUR | 100 | 51.129 |
| GN Netcom S.A. | France | EUR | 100 | 80.000 |
| **GN Hearing A/S** | Denmark | DKK | 100 | 62.396.600 |
| GN ReSound Pty. Ltd. | Australia | AUD | 100 | 4.000.002 |
| GN ReSound Shanghai Ltd. | China | CNY | 100 | 3.000.000 |
| GN ReSound China Ltd. | China | CNY | 100 | 34.000.000 |
| GN GROC Ltd | China | CNY | 100 | 500.000 |
| GN ReSound India Private Limited | India | INR | 100 | 7.352.000 |
| GN Resound Japan K.K. | Japan | JPY | 100 | 499.000.000 |
| GN ReSound (NZ) Ltd. | New Zealand | NZD | 100 | 2.000.000 |
| GN Hearing Pte. Ltd. | Singapore | SGD | 100 | 1.500.000 |
| GN ReSound Hörtechnologie GmbH | Austria | EUR | 100 | 500.000 |
| Sluchadlova Akustika spol. S.R.O. | Czech Republic | CZK | 100 | 102.000 |
| Interton Danmark A/S | Denmark | DKK | 100 | 200.000 |
| Beltone Europe Holdings ApS | Denmark | DKK | 100 | 200.000 |
| Dansk Hørecenter ApS | Denmark | DKK | 100 | 125.000 |
| GN Hearing SAS | France | EUR | 100 | 285.957 |
| GN Hearing GmbH | Germany | EUR | 100 | 296.549 |
| GN Resound GmbH Hörtechnologie | Germany | EUR | 100 | 2.162.253 |
| GN Hearing S.r.l. | Italy | EUR | 100 | 181.190 |
| GN Hearing Benelux bv | Netherlands | EUR | 100 | 680.670 |
| GN ReSound Norge AS | Norway | NOK | 100 | 2.000.000 |
| Interton Slovakia s.r.o. | Slovakia | SLK | 100 | 170.000 |
| GN Hearing Care S.A. | Spain | EUR | 100 | 1.562.631 |
| GN Hearing Sverige AB | Sweden | SEK | 100 | 100.000 |
| GN ReSound AG | Switzerland | CHF | 100 | 420.000 |
| Beltone Schweiz GmbH | Switzerland | CHF | 100 | 20.000 |
| GN ReSound Ltd. | United Kingdom | GBP | 100 | 7.376.000 |
| GN ReSound Produtos Médicos Ltda. | Brazil | BRL | 100 | 1.019.327 |
| GN ReSound Korea Co. Ltd. * | Korea | KRW | 90 | 136.700.000 |
| Beltone Hearing Korea Co. Ltd * | Korea | KRW | 90 | 50.000.000 |
| GN ReSound LLC | Russia | RUB | 100 | 10.000 |
| GN ReSound Finland Oy/Ab | Finland | EUR | 100 | 100.913 |
| GN US Holdings, Inc. | USA | USD | 100 | 34.000.000 |
| GN Hearing Care Corporation | USA | USD | 100 | 180.000 |
| GN ReSound Holdings, Inc. | USA | USD | 100 | 10 |
| Beltone Holdings II Inc. | USA | USD | 100 | 1 |
| Beltone Holdings III Inc. | USA | USD | 100 | 10 |
| Beltone Holdings IV Inc. | USA | USD | 100 | 30 |
| Beltone Holdings V Inc. | USA | USD | 100 | 30 |
| Beltone Foundation | USA | USD | 100 | 10 |
| Beltone Corporation | USA | USD | 100 | 10 |
| American Hearing Systems Inc. | USA | USD | 100 | 10 |
| Audio Electronics, Inc. | USA | USD | 100 | 198.890 |
| Audigy Group LLC | USA | USD | 100 | 0 |
| Audigy medical LLC | USA | USD | 100 | 0 |
| Audigy Venture LLC | USA | USD | 100 | 0 |
| DB Special Instruments Inc. | Canada | CAD | 100 | 137 |
| GN Hearing Care Canada Ltd. | Canada | CAD | 100 | 10.000 |
| 5837946 Manitoba, Ltd. | Canada | CAD | 100 | 10.000 |
| 810720 Alberta, Ltd. | Canada | CAD | 100 | 50.000 |
| GN ReSound (Malaysia) Sdn Bhd | Malaysia | RM | 100 | 100 |

| | Domicile | Currency | Ownership % | Share capital |
|---|---|---|---|---|
| **GN Otometrics A/S** | Denmark | DKK | 100 | 23.240.000 |
| Inmedico A/S | Denmark | DKK | 100 | 500.000 |
| GN Otometrics GmbH | Germany | EUR | 100 | 1.800.000 |
| Genie Audio Inc. | Canada | CAD | 100 | 232 |
| GN Otometrics Shanghai Ltd | China | USD | 100 | 800.000 |
| GN Otometrics S.a.S | France | EUR | 100 | 1.200.000 |
| Scanning Technology A/S | Denmark | DKK | 100 | 500.001 |
| **Associates** | | | | |
| Audio Nova S.R.L | Romania | ROL | 49 | 10.000.000 |
| Audiology Systems Inc. | USA | USD | 41 | 1.674.000 |
| Himpp A/S | Denmark | DKK | 11 | 2.400.000 |
| HIMSA A/S | Denmark | DKK | 25 | 1.000.000 |
| HIMSA II A/S | Denmark | DKK | 17 | 600.000 |
| Himsa II K/S | Denmark | DKK | 15 | 3.250.000 |
| K/S Himpp | Denmark | DKK | 9 | 114.782.415 |

* GN Store Nord currently hold 90% ownership but consolidates 100%, as the anticipated acquisition method is applied.

A few minor companies have been omitted from the list.

## In this annual report the following financial terms are used:

| | | |
|---|---|---|
| Operating profit (loss) | | Profit (loss) before tax and financial items. |
| EBITDA | | Operating profit (loss) before depreciation and impairment of property, plant and equipment, amortization and impairment of intangible assets, except development projects, impairment of goodwill and gains (losses) on divestment of operations etc. |
| EBITA | | Operating profit (loss) before amortization and impairment of acquired intangible assets, impairment of goodwill and gains (losses) on divestment of operations etc. |

**Key Ratio Definitions**

| | | |
|---|---|---|
| Organic growth | = | $\frac{\text{Absolute organic sales growth}}{\text{Sales in comparative period}}$<br>Organic growth is a measure of growth excluding the impact of acquisitions, divestments and foreign exchange adjustments from year-on-year comparisons. |
| Net working capital (NWC) | = | Inventories + receivables + other operating current assets - trade payables - other operating current liabilities |
| Net interest-bearing debt | = | Cash and cash equivalents - bank loans |
| Dividend payout ratio | = | $\frac{\text{Total dividend}}{\text{Profit (loss) for the year}}$ |
| Gross margin | = | $\frac{\text{Gross profit}}{\text{Revenue}}$ |
| EBITA margin | = | $\frac{\text{EBITA}}{\text{Revenue}}$ |
| ROIC (Return on invested capital including goodwill) | = | $\frac{\text{EBITA}}{\text{Average invested capital including goodwill}}$ |
| Invested capital | = | NWC + property, plant and equipment and intangible assets + loans to dispensers of GN Hearing products + ownership interests – provisions |
| Cash conversion | = | $\frac{\text{Free cash flow excl. company acquisitions and divestments}}{\text{EBITA}}$ |
| Return on equity (ROE) | = | $\frac{\text{Profit (loss) for the year}}{\text{Average equity of the Group}}$ |
| Equity ratio | = | $\frac{\text{Equity of the Group}}{\text{Total assets}}$ |
| Earnings per share, basic (EPS) | = | $\frac{\text{Profit (loss) for the year}}{\text{Average number of shares outstanding}}$ |
| Earnings per share, fully diluted (EPS diluted) | = | $\frac{\text{Profit (loss) for the year}}{\text{Average number of shares outstanding, fully diluted}}$ |
| Market capitalization | | Number of shares outstanding x share price at the end of the period |
| Outstanding shares | | Number of shares listed - treasury shares |

# Parent company Financial statements 2016

## Financial statements



## Notes to the parent financial statements

### Notes – Income statement



### Notes – Balance sheet



### Notes – Other disclosures

## Parent company income statement

| DKK million | Note | 2016 | 2015 |
|---|---|---|---|
| Revenue | | 20 | 18 |
| **Gross profit** | | **20** | **18** |
| Development costs | | (6) | (14) |
| Management and administrative expenses | 1,2,3 | (79) | (90) |
| **Operating profit (loss)** | | **(65)** | **(86)** |
| Share of profit after tax in subsidiaries | 7 | 1,120 | 909 |
| Financial income | 4 | 114 | 85 |
| Financial expenses | 4 | (162) | (136) |
| **Profit (loss) before tax** | | **1,007** | **772** |
| Tax on profit (loss) | 5 | 26 | 33 |
| **Profit (loss) for the year** | | **1,033** | **805** |
| **Proposed profit appropriation/distribution of loss** | | | |
| Transferred to reserve for net revaluation according to the equity method | | (2,880) | 909 |
| Retained earnings | | 3,735 | (265) |
| Proposed dividends for the year | | 178 | 161 |
| | | **1,033** | **805** |

## Statement of comprehensive income

| DKK million | 2016 | 2015 |
|---|---|---|
| **Profit (loss) for the year** | **1,033** | **805** |
| **Other comprehensive income** | | |
| ***Items that will not be reclassified subsequently to profit or loss*** | | |
| Other changes in equity in subsidiaries | (4) | 8 |
| **Other comprehensive income** | | |
| ***Items that may be reclassified subsequently to profit or loss*** | | |
| Adjustment of cash flow hedges | (19) | (11) |
| Tax relating to this item of other comprehensive income | 4 | 3 |
| Foreign exchange adjustments, etc. | 198 | 462 |
| Other changes in equity in subsidiaries | (30) | 28 |
| **Comprehensive income for the year** | **1,182** | **1,295** |

## Parent company balance sheet at December 31

| DKK million | Note | 2016 | 2015 | 01.01.2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Intangible assets | 6 | 81 | 109 | 93 |
| Investments in subsidiaries | 7 | 10,833 | 9,454 | 7,901 |
| Amounts owed by subsidiaries | 11 | 766 | 714 | 1,313 |
| **Total non-current assets** | | **11,680** | **10,277** | **9,307** |
| Tax receivables | 9 | - | 13 | - |
| Other receivables | 11 | 7 | 8 | 18 |
| **Total current assets** | | **7** | **21** | **18** |
| **Total assets** | | **11,687** | **10,298** | **9,325** |
| **Equity and liabilities** | | | | |
| Share capital | | 619 | 649 | 672 |
| Other reserves | | (583) | 2,464 | 2,098 |
| Proposed dividends for the year | | 178 | 161 | 151 |
| Retained earnings | | 5,406 | 2,490 | 2,746 |
| **Total equity** | | **5,620** | **5,764** | **5,667** |
| Bank loans | 11 | 3,527 | 2,297 | 1,675 |
| Provisions | | - | - | 12 |
| Deferred tax liabilities | 8 | 174 | 180 | 172 |
| **Total non-current liabilities** | | **3,701** | **2,477** | **1,859** |
| Bank loans | 11 | 47 | 21 | 55 |
| Trade payables | 11 | 13 | 13 | 24 |
| Tax payables | 9 | 9 | - | 4 |
| Amounts owed to subsidiaries | 11 | 2,218 | 1,963 | 1,681 |
| Provisions | | - | 6 | - |
| Other payables | | 79 | 54 | 35 |
| **Total current liabilities** | | **2,366** | **2,057** | **1,799** |
| **Total equity and liabilities** | | **11,687** | **10,298** | **9,325** |

## Parent company statement of cash flow

| DKK million | Note | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating profit (loss) | | (65) | (86) |
| Depreciation, amortization and impairment | | 20 | 18 |
| Other non-cash adjustments | 14 | (6) | (6) |
| **Cash flow from operating activities before changes in working capital** | | **(51)** | **(74)** |
| Change in receivables | | 1 | 10 |
| Change in trade payables and other payables | | 7 | (5) |
| **Total changes in working capital** | | **8** | **5** |
| **Cash flow from operating activities before financial items and tax** | | **(43)** | **(69)** |
| Interest and dividends, etc. received | | 102 | 85 |
| Interest paid | | (156) | (129) |
| Tax paid, net | | 46 | 27 |
| **Cash flow from operating activities** | | **(51)** | **(86)** |
| **Investing activities** | | | |
| Investments in intangible assets | | (5) | (34) |
| Disposal of intangible assets | | 13 | - |
| **Cash flow from investing activities** | | **8** | **(34)** |
| **Cash flow from operating and investing activities (free cash flow)** | | **(43)** | **(120)** |
| **Financing activities** | | | |
| Increase of long-term loans | | 1,231 | 622 |
| Increase of short-term loans | | 233 | 802 |
| Paid dividends | | (149) | (142) |
| Purchase/sale of treasury shares | | (1,272) | (1,162) |
| **Cash flow from financing activities** | | **43** | **120** |
| **Net cash flow** | | **-** | **-** |
| Cash and cash equivalents, beginning of period | | - | - |
| **Cash and cash equivalents, end of period** | | **-** | **-** |

## Parent company statement of equity

| | | Other reserves | | | | | | |
|---|---|---|---|---|---|---|---|---|
| DKK million | Share capital (shares of DKK 4 each) | Additional paid-in capital | Hedging reserve | Treasury shares | Reserve according to the equity method | Proposed dividends for the year | Retained earnings | Total equity |
| **Balance sheet total at December 31, 2014** | **672** | **1,033** | **(5)** | **(1,112)** | **-** | **151** | **3,194** | **3,933** |
| Effect of changes in accounting policies | - | - | - | - | 2,182 | - | (448) | 1,734 |
| **Balance sheet total at January 1, 2015** | **672** | **1,033** | **(5)** | **(1,112)** | **2,182** | **151** | **2,746** | **5,667** |
| Profit (loss) for the period | - | - | - | - | 909 | - | (104) | 805 |
| Adjustment of cash flow hedges | - | - | (11) | - | - | - | - | (11) |
| Foreign currency translation adjustments of investments in subsidiaries etc. | - | - | - | - | 462 | - | - | 462 |
| Other changes in equity in subsidiaries | - | - | - | - | 36 | - | - | 36 |
| Tax relating to other comprehensive income | - | - | 3 | - | - | - | - | 3 |
| **Total comprehensive income for the year** | **-** | **-** | **(8)** | **-** | **1,407** | **-** | **(104)** | **1,295** |
| Reduction of the share capital | (23) | (761) | - | 784 | - | - | - | - |
| Purchase/sale of treasury shares | - | - | - | (1,162) | - | - | - | (1,162) |
| Purchase of ownership interests in subsidiaries by payment in treasury shares | - | (65) | - | 130 | - | - | - | 65 |
| Other changes in equity in subsidiaries | - | - | - | - | 41 | - | - | 41 |
| Proposed dividends for the year | - | - | - | - | - | 161 | (161) | - |
| Paid dividends | - | - | - | - | - | (142) | - | (142) |
| Dividends, treasury shares | - | - | - | - | - | (9) | 9 | - |
| **Balance sheet total at December 31, 2015** | **649** | **207** | **(13)** | **(1,360)** | **3,630** | **161** | **2,490** | **5,764** |
| Profit (loss) for the period | - | - | - | - | (2,880) | - | 3,913 | 1,033 |
| Adjustment of cash flow hedges | - | - | (19) | - | - | - | - | (19) |
| Other changes in equity in subsidiaries | - | - | - | - | (28) | - | - | (28) |
| Foreign currency translation adjustments of investments in subsidiaries etc. | - | - | - | - | 198 | - | - | 198 |
| Tax relating to other comprehensive income | - | - | 4 | - | (6) | - | - | (2) |
| **Total comprehensive income for the year** | **-** | **-** | **(15)** | **-** | **(2,716)** | **-** | **3,913** | **1,182** |
| Reduction of the share capital | (30) | (207) | - | 1,036 | - | - | (799) | - |
| Other changes in equity in subsidiaries | - | - | - | - | 22 | - | - | 22 |
| Purchase of ownership interests in subsidiaries by payment in treasury shares | - | - | - | 99 | | - | (32) | 67 |
| Tax related to share-based incentive plans | - | - | - | - | 6 | - | - | 6 |
| Purchase/sale of treasury shares | - | - | - | (1,272) | - | - | - | (1,272) |
| Proposed dividends for the year* | - | - | - | - | - | 178 | (178) | - |
| Paid dividends | - | - | - | - | - | (149) | - | (149) |
| Dividends, treasury shares | - | - | - | - | - | (12) | 12 | - |
| **Balance sheet total at December 31, 2016** | **619** | **-** | **(28)** | **(1,497)** | **942** | **178** | **5,406** | **5,620** |

*Equivalent to DKK 1,15 per share (2015: DKK 0,99 per share)

The reserve according to the equity method includes foreign exchange adjustments of DKK (540) million (2015 DKK (726) million)

## 1 Staff costs

| DKK million | 2016 | 2015 |
|---|---|---|
| Wages, salaries and remuneration | (62) | (65) |
| Pensions | (5) | (4) |
| **Total** | **(67)** | **(69)** |
| Executive Management remuneration can be specified as follows: | | |
| Marcus Desimoni, CFO of GN Store Nord from February 15, 2016*) | (8.0) | - |
| Anders Boyer, CFO of GN Store Nord until February 14, 2016*) | (1.1) | (7.7) |
| **Total** | **(9.1)** | **(7.7)** |
| Staff costs are included in Management and administrative expenses. | | |
| Board of Directors remuneration | (5.0) | (5.0) |
| Average number of employees | 79 | 69 |
| Number of employees, year-end | 82 | 75 |

For information regarding Executive Management and Board of Directors remuneration please refer to note 5.3 in the consolidated financial statements.

*) Does not include share based payments.

## 2 Depreciation, amortization and impairment

Amortization and impairment of intangible assets of DKK 20 million, are recognized in the Income Statement as Management and administrative expenses (2015: DKK 18 million).

## 3 Fees to auditors appointed at the annual general meeting

| DKK million | 2016 | 2015 |
|---|---|---|
| Audit fees | (1) | (1) |
| **Total** | **(1)** | **(1)** |
| **Other assistance** | | |
| Other assurance related services | (5) | - |
| Tax assistance and advice | (1) | - |
| **Total** | **(6)** | **-** |
| **Total** | **(7)** | **(1)** |

## 4 Financial income and expenses

| DKK million | 2016 | 2015 |
|---|---|---|
| **Financial income** | | |
| Interest income from subsidiaries* | 75 | 62 |
| Interest income from bank balances* | 25 | 23 |
| Financial income, other | 2 | - |
| Foreign exchange gain | 12 | - |
| **Total** | **114** | **85** |
| **Financial expenses** | | |
| Interest expense to subsidiaries* | (86) | (72) |
| Interest expense on bank balances* | (56) | (49) |
| Financial expenses, other | (14) | (9) |
| Foreign exchange loss | (6) | (6) |
| **Total** | **(162)** | **(136)** |

*Interest income and expenses from financial assets and liabilities at amortized cost.

## 5 Tax

| DKK million | 2016 | 2015 |
|---|---|---|
| **Tax on profit (loss)** | | |
| Current tax for the year | 18 | 36 |
| Deferred tax for the year | 5 | (6) |
| Adjustment to current tax in respect of prior years | 2 | 5 |
| Adjustment to deferred tax in respect of prior years | 1 | (2) |
| **Total** | **26** | **33** |
| Reconciliation of effective tax rate | | |
| Danish tax rate | 22.0% | 23.5% |
| Non-taxable income | 0.0% | 0.0% |
| Non-deductible expenses | 0.1% | 0.3% |
| Share of profits (loss) in subsidiaries | (24.5)% | (27.7)% |
| Other | (0.2)% | (0.4)% |
| **Effective tax rate** | **(2.6)%** | **(4.3)%** |

In 2016, the parent company paid in preliminary taxes DKK 166 million in Danish corporation tax for the year against DKK 167 million in 2015.

## 6 Intangible assets

| | Software | |
|---|---|---|
| DKK million | 2016 | 2015 |
| Cost at January 1 | 188 | 154 |
| Additions | 5 | 34 |
| Disposals | (25) | - |
| **Cost at December 31** | **168** | **188** |
| Amortization and impairment at January 1 | (79) | (61) |
| Amortization | (20) | (18) |
| Disposals | 12 | - |
| **Amortization and impairment at December 31** | **(87)** | **(79)** |
| **Carrying amount at December 31** | **81** | **109** |
| Amortized over | 1 - 7 years | 1 - 7 years |

GN Store Nord has not capitalized any borrowing costs in the current or preceding periods as non-current assets are not financed with debt.

## 7 Investments in subsidiaries

| DKK million | 2016 | 2015 |
|---|---|---|
| Cost at January 1 | 5,824 | 6,167 |
| Effect of changes in accounting policies | - | (448) |
| Cost at January 1, after changes in accounting policies | 5,824 | 5,719 |
| Additions, capital contribution | 67 | 105 |
| **Cost at December 31** | **5,891** | **5,824** |
| Value adjustment at January 1 | 3,630 | - |
| Effect of changes in accounting policies | - | 2,182 |
| Value adjustment at January 1, after changes in accounting policies | 3,630 | 2,182 |
| Share of profit after tax in subsidiaries | 1,120 | 909 |
| Foreign currency translation adjustments | 198 | 462 |
| Direct equity postings in subsidiaries | (6) | 77 |
| **Value adjustments at December 31** | **4,942** | **3,630** |
| **Carrying amount at December 31** | **10,833** | **9,454** |

Group companies are listed on page 93.

## 8 Deferred tax

| DKK million | 2016 | 2015 |
|---|---|---|
| **Deferred tax, net** | | |
| Deferred tax at January 1, net | (180) | (172) |
| Adjustment in respect of prior years | 1 | (6) |
| Deferred tax for the year recognized in profit (loss) for the year | 5 | (2) |
| **Deferred tax at December 31, net** | **(174)** | **(180)** |
| **Deferred tax, net relates to:** | | |
| Intangible assets | (18) | (23) |
| Retaxation | (152) | (152) |
| Provisions | (5) | (5) |
| Other | 1 | - |
| **Total** | **(174)** | **(180)** |

## 9 Current Tax

| DKK million | 2016 | 2015 |
|---|---|---|
| **Tax receivable** | | |
| Tax receivable at January 1 | 13 | (4) |
| Adjustment in respect of prior years | 2 | 5 |
| Payment relating to prior years* | (15) | (1) |
| Current tax for the year | 18 | 36 |
| Current tax for the year recognized in other comprehensive income for the year | 4 | 3 |
| Payments relating to the current year* | (31) | (26) |
| **Tax receivable (payable) at December 31** | **(9)** | **13** |

* GN Store Nord A/S received DKK 45 million, net, related to the joint taxation scheme (2015: DKK 27 million).

## 10 Contingent liabilities, other financial liabilities and contingent assets

Please refer to note 5.6 in the consolidated financial statements.

The company is jointly taxed with all Danish subsidiaries. The company is jointly and severally liable with the other companies in the joint taxation for Danish corporate taxes and withholding taxes on dividend, interests and royalties within the joint taxation.

## 11 Financial instruments and financial risk

**Contractual maturity analysis for financial liabilities**

| DKK million | Less than one year | Between one and five years | More than five years | Total |
|---|---|---|---|---|
| **2016** | | | | |
| Long-term bank loans | 74 | 3,453 | - | 3,527 |
| Short-term bank loans | 47 | - | - | 47 |
| Trade payables | 13 | - | - | 13 |
| Amounts owed to subsidiaries | - | 2,218 | - | 2,218 |
| Total non-derivative financial liabilities | 134 | 5,671 | - | **5,805** |
| Derivative financial liabilities | - | 38 | - | 38 |
| **Total financial liabilities** | **134** | **5,709** | **-** | **5,843** |
| **2015** | | | | |
| Long-term bank loans | - | 2,074 | 223 | 2,297 |
| Short-term bank loans | 21 | - | - | 21 |
| Trade payables | 13 | - | - | 13 |
| Amounts owed to subsidiaries | - | 1,963 | - | 1,963 |
| Total non-derivative financial liabilities | 34 | 4,037 | 223 | 4,294 |
| Derivative financial liabilities | - | 19 | - | 19 |
| **Total financial liabilities** | **34** | **4,056** | **223** | **4,313** |

The maturity analysis is based on non-discounted cash flows excluding interest payments.

**Categories of financial assets and liabilities**

| DKK million | 2016 | 2015 |
|---|---|---|
| Other receivables | 7 | 8 |
| Receivables from subsidiaries | 766 | 714 |
| **Loans and receivables** | **773** | **722** |
| Bank loans, non-current | 3,453 | 2,297 |
| Bank loans | 121 | 21 |
| Trade payables | 13 | 13 |
| Amounts owed to subsidiaries | 2,218 | 1,963 |
| **Financial liabilities measured at amortized cost** | **5,805** | **4,294** |
| Derivative financial instruments included in Other payables | 38 | 19 |
| **Financial liabilities measured at fair value** | **38** | **19** |

For financial assets and liabilities, the fair value is approximately equal to the carrying amount. Regarding GN Store Nord's bank loans, this is due to the fact that the loans carry floating interest rates and have maturity of less than one year.

**Derivative financial instruments**

**Cash flow hedges, interest rate swap**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Contract amount, net | Fair value, assets | Fair value, liabilities | Contract amount, net | Fair value, assets | Fair value, liabilities |
| EUR* | 5,948 | - | 38 | 3,087 | - | 19 |
| **Total** | **5,948** | **-** | **38** | **3,087** | **-** | **19** |

* Interest rate swaps denominated in EUR

## 11 Financial instruments and financial risk (Continued)

GN has hedged future interest rates with interest rate swaps. Hedge accounting has been applied during 2016. The fair value of the interest rate swaps is determined using forward interest rates and can be categorized as level 2 (observable inputs) in the fair value hierarchy.

| DKK million | 2016 | 2015 |
|---|---|---|
| Fair value adjustment for the year recognized in Other comprehensive income | (19) | (11) |

## 12 Outstanding shares and treasury shares

For information regarding outstanding shares and treasury shares please refer to note 4.1 in the consolidated financial statements.

## 13 Related party transactions

GN Store Nord A/S' related parties exercising significant influence comprise members of the Board of Directors and the Executive Management and senior employees and their family members.

In addition, related parties comprise group enterprises and associates over which GN Store Nord A/S exercises control or significant influence.

Group companies are listed on page 93.

**Board of Directors, Executive Management and Senior Employees**
Management remuneration and incentive plans are described in notes 5.3 and 5.4 in the consolidated financial statements.

**Group enterprises and associates**
Trade with group enterprises and associates comprised:

| DKK million | 2016 | 2015 |
|---|---|---|
| Sale of services to group enterprises | 133 | 96 |
| Lease income from group enterprises | 14 | 12 |
| Sale of intangible assets | 13 | - |
| Purchase of services from group enterprises | (27) | (27) |
| Lease costs paid to group enterprises | (15) | (13) |
| Purchase of intangible assets | (5) | (33) |

Transactions with group enterprises are eliminated in the consolidated financial statements in accordance with GN Store Nord's Accounting Policies. Purchase of products and services are bought from group enterprises on normal commercial terms and conditions.

The parent company's balances with group enterprises at December 31, 2016 are recognized in the balance sheet. Interest income and expenses with respect to group enterprises are disclosed in note 4. Further, balances with group enterprises comprise trade balances related to the purchase and sale of goods and services.

Sale of services to group enterprises consists of facility services, canteen services, management fee and IT costs. Purchase of services from group enterprises mainly consists of facility services and canteen services. In 2016, the parent company has bought software from subsidiaries for a total amount of DKK 5 million. The transactions were carried out in preparation for the implementation of a new ERP platform for the entire Group. In preparation for the sale of GN Otometrics, the parent company has sold software to a subsidiary for a total amount of DKK 13 million. The assets were traded at net book values. Furthermore, the parent company has purchased development services on market terms from subsidiaries related to the exploring research projects undertaken in GN Other.

No transactions have been carried out with the Board of Directors, the Executive Management, senior employees, major shareholders or other related parties, apart from ordinary remuneration.

## 14 Other non-cash Adjustments

| DKK million | 2016 | 2015 |
|---|---|---|
| Adjustment of provisions | (6) | (6) |
| **Total** | **(6)** | **(6)** |

## 15 Accounting policies

The financial statements for 2016 of the parent company, GN Store Nord A/S has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for annual reports of listed companies. The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of available-for-sale financial assets and derivative financial instruments at fair value.

**Changes in accounting policies**
As of January 1, 2016 the accounting policies of the parent company have been changed retrospectively. Instead of recognizing investment in subsidiaries at cost these are accounted for using the equity method. The change in accounting policies is in line with the amendments to IAS 27 Separate Financial Statements (2014), which allows using the equity method in separate financial statements and is effective for annual periods beginning January 1, 2016.

The equity method implies the parent company to include its share of the profit or loss of its subsidiaries in its income statement and thereby the performance of these. As a result, application of the equity method is considered to provide more informative reporting of the parent company's net assets and profit or loss.

The effect of the change is presented in note 7 Investments in subsidiaries and in the statement of equity.

Apart from this change the accounting policies for the financial statements of the parent company are unchanged from the last financial year and are the same as for the consolidated financial statements with the following additions.

**Supplementary accounting policies for the parent company**
**Investments in subsidiaries**
Investments in subsidiaries are accounted for using the equity method whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the share of the subsidiaries net assets. The share of the subsidiaries profit or loss, less unrealized intra-Group profits, is included in the income statement of the parent company and the share of the subsidiaries other comprehensive income is included in other comprehensive income of the parent company. Received dividends reduce the carrying amount of the investments in subsidiaries.

To the extent net profit in subsidiaries exceeds declared or proposed dividends from such companies, net revaluation of investments in subsidiaries is transferred to Net revaluation reserve under Equity according to the equity method.

## Forward-looking statements

The forward-looking statements in this annual report reflect GN Store Nord's management's current expectations of certain future events and financial results. Statements regarding the future are inherently subject to risks and uncertainties which may result in material deviations from expectations. Furthermore, some of these expectations are based on assumptions regarding future events which may prove incorrect. Factors that may cause actual results to deviate materially from expectations include – but are not limited to – general economic developments and developments in the financial markets, technological developments, changes and amendments to legislation and regulations governing GN's markets, changes in the demand for GN's products, competition, fluctuations in sub-contractor supplies and developments in ongoing litigation (including but not limited to class action and patent infringement litigation in the United States). For more information, see the "Management's report" and "Risk management" elsewhere in this annual report. This annual report should not be considered an offer to sell securities in GN.

# Statement by the Executive Management and the Board of Directors

Today, the Executive Management and the Board of Directors have discussed and approved the GN Store Nord A/S Annual Report 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

In our opinion the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's assets, liabilities and financial position on December 31, 2016 and of the results of the group's and the parent company's operations and cash flows for the financial year January 1 - December 31, 2016.

Further, in our opinion the management's report includes a fair review of the development and performance of the group's and the parent company's business and financial condition, the profit/loss for the year and of the group's and the parent company's financial position, together with a description of the principal risks and uncertainties that the group and the parent company face.

We recommend that the annual report for 2016 be approved at the Annual General Meeting.

Ballerup, February 9, 2017

**Executive Management**

**Anders Hedegaard**
CEO, GN Store Nord & GN Hearing

**René Svendsen-Tune**
CEO, GN Store Nord & GN Audio

**Marcus Desimoni**
CFO, GN Store Nord & GN Hearing

**Board of Directors**

**Per Wold-Olsen**
Chairman

**William E. Hoover Jr.**
Deputy chairman

**Wolfgang Reim**

**Ronica Wang**

**Hélène Barnekow**

**Carsten Krogsgaard Thomsen**

**Leo Larsen**

**Nikolai Bisgaard**

**Morten Andersen**

# Independent auditors' report

## To the shareholders of GN Store Nord A/S

### Opinion

We have audited the consolidated financial statements and the parent company financial statements of GN Store Nord A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flow and notes, including a summary of significant accounting policies, for the Group as well as for the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements and the parent company financial statements.

*Accounting for financial support arrangements*

The Group has entered into financial support arrangements with certain of its dispensers, primarily in the US. The arrangements include providing financial support through loans and acquiring ownership interests.
Financial support arrangements were significant to our audit as the total carrying amount of DKK 865 million in loans and ownership interests at 31 December 2016 is material to the consolidated financial statements and because the accounting treatment includes judgements based on facts, circumstances and management assumptions. The arrangements are complex by nature as they often combine or link multiple elements of the commercial relationship with the dispenser. Areas of judgement include assessing the individual components of the arrangements, the classification of the investments and the recoverability of assets (impairment testing).

Additional details on financial support arrangements are provided in section 3.4 of the consolidated financial statements.

Our procedures in relation to the audit of financial support arrangements included:

- Assessing group accounting policies for compliance with IFRS.
- Evaluating Management's classification of investments and of the individual components of the financial support arrangements, such as intangible rights (supply agreements) and rebates.
- Examining the principles for amortisation of supply agreements and recognition of any prepaid rebates against revenue. In respect of recoverability of the financial support arrangements, we examined payment histories, and impairment tests prepared by Management

as well as obtained external confirmations on the outstanding balances for selected loan arrangements.

*Recognition and measurement of capitalised development costs*
The Group capitalises development costs in accordance with IFRS, which prescribes capitalisation when certain criteria are met. Recognition and measurement of capitalised development costs were significant to our audit because the balance of DKK 1,065 million at 31 December 2016 is material to the consolidated financial statements and because the criteria for capitalisation and impairment testing are subject to judgement and estimates based on Management's assumptions, including consideration of anticipated technological developments within the audio and hearing care industry.

Additional details on capitalised development costs are provided in section 3.1 of the consolidated financial statements.
Our procedures in relation to the audit of recognition and measurement of capitalised development costs included:

- Assessing group accounting policies and controls for compliance with IFRS and on a sample basis testing available documentation to consider whether the criteria for capitalisation were met.
- Testing and/or considering the assumptions applied by means of comparison with business plans, historic performance and Management's assumptions regarding strategy, product life cycle, market conditions and discount rates for selected development projects.

*Goodwill measurement*
Under IFRS, the Group is required to annually test the carrying amount of goodwill for any impairment. Measurement of goodwill was significant to our audit because the balance of DKK 4,372 million at 31 December 2016 is material to the consolidated financial statements and because the determination of the recoverable amount of the goodwill is subject to judgement and assumptions determined by Management, including expectations of future sales quantities, profit margins and discount rates. Additional details on goodwill are provided in section 3.1 of the consolidated financial statements.

Our procedures in relation to the audit of goodwill measurement included:

- Examining the impairment tests prepared by Management, including the methodology applied.
- Evaluating the reasonableness of key assumptions applied by Management based on our knowledge of the business and industry.
- Comparing Management's input data to supporting evidence, such as available budgets and externally observable market data related to interest rates and market growth.
- Assessing the adequacy of the disclosures provided in the consolidated financial statements, including those assumptions expected to have the most significant effect on the determination of the recoverable amount of goodwill.

*Revenue recognition*
Revenue is recognised when the risks and rewards of the underlying products have been transferred to the customer and is measured taking account of incentives, returns and rebates earned by dispensers and customers on the Group's sales. Due to the multitude and variety of contractual terms across the Group's markets, the estimation of incentives, returns and rebates is considered complex and therefore significant to our audit.

Additional details on revenue recognition are provided in section 2.1 of the consolidated financial statements.
Our procedures in relation to revenue recognition included:

- Considering the appropriateness of the Group's revenue recognition accounting policies, including those relating to incentives, returns and rebates and assessing compliance with applicable accounting standards.
- Testing on a sample basis the effectiveness of the Group's controls over correct timing of revenue recognition.
- Testing on a sample basis that incentives, returns and rebates have been recognised in the consolidated income statement in the correct period.
- Verifying selected sales transactions taking place at either side of the balance sheet date as well as credit notes issued after the year-end date to supporting documentation and assessing whether those transactions were recognised in the correct period and in accordance with the governing sales contracts.
- Applying data analytics to identify and test revenue journal entries on a sample basis.

**Management's responsibilities for the financial statements**
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional disclosure requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

**Auditors' responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent company financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, February 9, 2017

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

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|---|---|
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